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October 8, 2008

British Columbia Utilities Commission
Sixth Floor
900 Howe Street
Vancouver, B.C. V6Z 2N3

Attention: Ms. Erica M. Hamilton, Commission Secretary

Dear Ms. Hamilton:

RE: Terasen Gas Inc. ("Terasen Gas")
2008–2009 Extension of the 2004–2007 Multi-Year Performance Based Rate Plan

2008 Annual Review of 2009 Revenue Requirements and Rates

By Order No. G-142-08, the British Columbia Utilities Commission ("the Commission") set November 7, 2008 as the date for the joint Terasen Gas 2008 Annual Review Workshop and Terasen Gas (Vancouver Island Inc.) 2008 Settlement Update Meeting. This Annual Review Workshop will be the sixth under the Company's 2004 – 2007 Multi-Year Performance Based Rate settlement agreement (the "Settlement") extended to 2008-2009. The Settlement was approved by Commission Order No. G-51-03 dated July 29, 2003, with the two-year extension approved by Order No. G-33-07 (the "Extended Settlement").

The terms of the Extended Settlement require Terasen Gas to submit to the Commission and interested parties advance materials on the information to be presented at the Annual Review three weeks prior to the Annual Review Workshop. The details of the Annual Review process are set out on Pages 17 to 22 of Appendix A to Commission Order No. G-51-03.

The 2008 Annual Review is a process for the Company and stakeholders to ensure that the objectives of the Settlement are being achieved and to review the cost drivers and financial forecasts for the purposes of establishing the 2009 revenue requirements.

Enclosed are twenty (20) copies of the advance information for the 2008 Annual Review. Section A of the binder includes information on the cost drivers, financial projections and forecasts necessary for setting 2009 delivery rates. Section B of the binder includes various other reports and information requirements identified in the Settlement and Commission Order No. G-51-03 and G-33-07. Terasen Gas will present information at the Annual Review Workshop on the matters addressed in the advance materials.

The 2009 revenue requirement, exclusiding gas costs, increase identified in the enclosed materials is $36.3 million, equivalent to a 7.5% increase in gross margin or a 2.2% increase in total revenue at existing rates. After taking into consideration the earnings surplus incentive sharing, the revenue requirement is an increase of $21.9 million, equivalent to a 4.6% increase in gross margin, or a 1.3% increase in total revenue at existing rates.

The revenue requirement increase is largely attributable to use rate declines; the reduction in use rates contributes $26.9 million, or 74.1%, of the revenue requirement increase. Changes in the average residential gas use rates, as experienced over the last several years, have been driven by more efficient appliances, better insulated homes and multi-family home construction. A summary of the components of the revenue requirement increase before earnings sharing is shown on Page 4 of Section A1.

The final rates for 2009 may be subject to further adjustments for changes in the return on equity ("ROE") and updates to Consumer Price Index ("CPI") forecasts. The financial calculations for 2009 in the enclosed materials have been made using an ROE of 8.62% representing the allowed Terasen Gas 2008 ROE. The difference between the 2008 allowed ROE level and the 2009 ROE, as determined in accordance with the Commission's March 2, 2006 ROE Decision, will result in corresponding changes to the final 2009 revenue requirement. At the point in time that the 2009 allowed ROE is approved by the Commission, Terasen Gas will revise its rate proposals and submit them for Commission approval. Any rate changes related to the flow-through of gas cost changes will be dealt with in a separate application to the Commission.

REQUEST FOR APPROVAL

With this Annual Review Application, TGI requests Commission approval for the following:

1. The increase in Gross Margin effective January 1, 2009 as included in the Annual Review advance materials in Section A1, page 5, line 17.
2. Earnings Sharing Mechanism sharing in 2009 of $14.4 million via a rate rider as included in the Annual Review advance materials in Section A8, page 1.
3. The decrease in the Rate Stabilization Adjustment Mechanism Rider by $0.094GJ, from the currently approved level of $0.095/GJ, to $0.001/GJ effective January 1, 2009 as included in the Annual Review advance materials in Section A3, page 13.
4. The Deferral account additions and treatment as included in the Annual Review advance materials in Section A3 as well as Section B1, 2.2.6. This includes the creation of a deferral account to recover the critical security costs associated with the 2010 Olympic and Paralympic Winter Games, a deferral account to recover the incremental costs associated with IFRS implementation, a change to the amortization of the Large Corporations Tax deferral account, and changes to the non rate base Residential and Commercial Commodity Unbundling deferral accounts.

We trust the enclosed is satisfactory. If you have any questions related to this submission please contact the undersigned.

To assist in the planning of the review, it would be appreciated if any party that intends to attend the Annual Review Workshop on November 7, 2008 would contact Regulatory Affairs by phone (604) 592-7664 or by email at regulatory.affairs@terasengas.com to advise of the intended attendance.

Yours very truly,

TERASEN GAS INC.

Original signed:

Tom A. Loski

Attachment

cc (e-mail only): TGI Multi Year PBR (2004-2007 PBR & 2008-2009 Extension) Participants and 2008 Annual Review & Mid-Term Settlement Update Participants

TERASEN GAS INC.

2008 – 2009 EXTENSION of the
2004 – 2007 MULTI-YEAR
PERFORMANCE BASED RATE PLAN

2008 Annual Review of
2009 Revenue Requirements and Rates

October 8, 2008

TABLE OF CONTENTS

SECTION B: *Other Advance Information Pertaining to the Terms of the Settlement*

SUMMARY OF REVENUE REQUIREMENTS FOR THE YEAR ENDING DECEMBER 31, 2009

The British Columbia Utilities Commission (the "Commission" or "BCUC") by Order No. G-51-03, approved the TGI Settlement Agreement for a 2004-2007 Performance Based Rate Plan (the "Settlement" or "PBR"), and extended the Settlement for 2008-2009 (the "Extended Settlement") by Order No. G-33-07.

Pursuant to the provisions of the Extended Settlement, Terasen Gas ("TGI") has developed the projections and forecasts needed to establish the 2009 revenue requirement. The attached costs and revenues incorporate updated data for:

- 2008 projected year-end customers,
- 2008 projected formula-based capital expenditures trued up for customer additions and average total customers, the resulting year-end plant balances, and other rate base information,
- 2008 projected deferral account balances and amortization,
- 2008 projected formula-based utility O&M trued up for average total customers
- Other projected 2008 cost-of-service items required under the terms of the Settlement for setting 2009 rates,
- 2009 forecast cost drivers, such as customer additions, average total customers and inflation (less an adjustment factor),
- 2009 customer use rate forecasts,
- 2009 forecast volumes and revenues,
- 2009 formula-based utility O&M expenses including adjustments, as per the terms of the Settlement, for the change in forecast pension and insurance costs,
- 2009 formula-based base capital expenditures and resulting plant balances, accumulated depreciation and contributions-in-aid-of-construction,
- 2009 forecast property taxes,
- 2009 forecast working capital, deferred account balances and amortization, and
- 2009 forecast long-term debt and the associated financing costs of long-term and unfunded debt to be included in 2009 rates.

A summary of the 2009 revenue requirement increase determined pursuant to the terms of the Settlement Agreement and the Revised Target is shown on the following financial summary pages:

Page 5 Summary of Rate Change Required
Page 6 Utility Rate Base
Page 7 Utility Income and Earned Return
Page 8 Income Taxes / Revenue Surplus
Page 9 Return on Capital

The 2009 test year costs and revenues are explained under the following section of this Annual Review material:

- Cost Drivers - see Section A, Tab 2,
- Gas plant in service, plant additions and other rate base components - see Section A, Tab 3,
- Volumes and revenues - see Section A, Tab 4,
- Operating and maintenance costs - see Section A, Tab 5,
- Taxes and other expenses - see Section A, Tab 6,
- Financing costs - see Section A, Tab 7,
- 2008 Projected Results - see Section A, Tab 8.

The results of incorporating the forecast and formula-based costs and revenues in the 2009 test year show that the revenue requirement increase, before earnings sharing, is $36.3 million, equivalent to a 7.5% increase in gross margin, or a 2.2% increase in total revenue at existing rates. After taking into consideration the earnings sharing, the revenue requirement is an increase of $21.9 million, equivalent to a 4.5% increase in gross margin, or a 1.3% increase in total revenue at existing rates.

The revenue requirement increase is largely attributable to a decrease in use rates; the reduction in use rates contributes $26.9 million, or 74.1%, of the revenue requirement increase before earnings sharing. Changes in the average residential gas use rates, as experienced over the last several years, have been driven by more efficient appliances, better insulated homes and multi-family home construction. The change in use rates is offset in part by customer growth which reduces revenue requirement by a net amount of $3.5 million; a decrease of $4.6 million associated with additional volumes offset by an increase of $1.1 million due to higher rate base.

O&M cost per customer increases as per the Settlement formula are limited to 34% of CPI (BC), or 0.6%, and contribute $2.8 million to increased revenue requirements. As a result of the limitation on CPI, the exclusion of labour inflation changes and compounded by the length of the

Settlement, the growth in O&M cost per customer embedded in the Revenue Requirement is lower than the actual growth of O&M cost per customer as experienced by Terasen Gas.

Other contributors to cost pressures include higher property taxes, lower income tax deductions and increased depreciation and amortization expense, while reductions in tax and interest rates serve to partially offset revenue requirement increases. A summary of the components of the revenue requirement increase before earnings sharing is shown on Page 4.

The revenue requirement increase is offset by earnings sharing of $14.4 million. Core market customers will experience a decrease in the revenue requirement of an average of $0.115 per gigajoule resulting from the earnings sharing as determined in accordance with the earnings sharing mechanism. There may also be flow-through cost of gas changes as the cost of gas is dependent on the commodity market which is subject to considerable volatility. A cold weather snap or unexpected negative news can change the natural gas commodity market outlook quite quickly. Overall, residential customers can expect to see an increase of approximately 1.81% to the annual bill when all of the changes related to the RSAM rider, the delivery rate and the earnings sharing credit are factored in.

The final rates for 2009 may be subject to further adjustments for changes in the return on equity (ROE) and CPI forecasts. The financial calculations for 2009 in the enclosed materials have been made using an ROE of 8.62% representing the allowed TGI 2008 ROE with a common equity component of 35.01%. The variance between the 2008 allowed ROE level and the 2009 ROE as determined in accordance with the Commission's March 2, 2006 ROE Decision will result in corresponding changes to the final 2009 revenue requirement.

Summary of 2009 Revenue Requirement Increase

		($ Millions)
Volumes/Revenue Related		
Customer Growth and Use Rate	$ (4.6)	
Change in Use Rate	26.9	
All Others	(0.1)	$ 22.2
O & M Related		
Higher O&M per Formula	$ 2.8	
Change in Pension and Insurance Forecast	1.1	
Others	(0.6)	3.3
Other Items		
Higher Property Taxes	4.7	
Lower Vehicle Lease Expense	(0.2)	
Higher Depreciation and Amortization	5.6	
Lower Other Revenues	0.1	
Lower Income Tax Rates	(1.3)	
Lower Income Tax Deductions	1.5	
Lower Interest Expense from lower rates	(0.7)	
Higher Rate Base to support customer growth	1.2	
Rounding Difference	(0.1)	10.8
Total Revenue Increase (Section A, Tab 1, Page 5, Column 6, Line 15)		$ 36.3
Earnings Sharing		(14.4)
Net Revenue Increase after Earnings Sharing - Annual Review		**$ 21.9**

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Tab 1
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SUMMARY OF RATE CHANGE REQUIRED
FOR THE YEAR ENDING DECEMBER 31, 2009
($000s)

Line No.	Particulars	2008 APPROVED	2009 Core	2009 Non-Core	2009 Bypass and Special Rates	2009 Total	Change
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	RATE CHANGE REQUIRED						
2							
3	Gas Sales and Transportation Revenue,						
4	At Prior Year's Rates	$1,504,700	$1,590,036	$59,074	$12,051	$1,661,161	$156,461
5							
6	Add - Other Revenue Related to SCP Third Party						
7	Revenue / Terasen Gas (Vancouver Island)	14,418	-	-	14,526	14,526	108
8							
9	Total Revenue	1,519,118	1,590,036	59,074	26,577	1,675,687	156,569
10							
11	Less - Cost of Gas	(1,021,804)	(1,189,710)	(1,846)	(808)	(1,192,364)	(170,560)
12							
13	Gross Margin	$497,314	$400,326	$57,228	$25,769	$483,323	($13,991)
14							
15	Revenue Deficiency (Surplus)	$8,071	$31,791	$4,545	$0	**$36,336**	
16							
17	Revenue Deficiency (Surplus) as a % of Gross Margin	1.62%	7.94%	7.94%	0.00%	7.52%	
18							
19	Revenue Deficiency (Surplus) as a % of Total Revenue	0.53%	2.00%	7.69%	0.00%	2.17%	

TERASEN GAS INC. Advance Materials Section A
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UTILITY RATE BASE
FOR THE YEAR ENDING DECEMBER 31, 2009
($000s)

Line No.	Particulars	2008 APPROVED	2009 Existing Rates	2009 Adjustments	2009 Revised Rates	Change	Reference
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	Plant in Service, Beginning	$3,242,849	$3,337,484	$0	$3,337,484	$94,635	- Tab A-3, Page 7.1
2	CPCNs	10,092	12,855	-	12,855	2,763	- Tab A-3, Page 7.1
3							
4	Additions	128,069	122,094	-	122,094	(5,975)	- Tab A-3, Page 7.1
5	Disposals	(32,478)	(28,635)	-	(28,635)	3,843	- Tab A-3, Page 7.1
6							
7	Plant in Service, Ending	3,348,532	3,443,798	-	3,443,798	95,266	
8							
9	Add - Intangible Plant	1,614	1,614	-	1,614	-	
10							
11		3,350,146	3,445,412	-	3,445,412	95,266	
12							
13	Contributions In Aid of Construction	(148,162)	(147,014)	-	(147,014)	1,148	- Tab A-3, Page 8
14							
15	Less - Accumulated Depreciation	(765,334)	(823,842)	-	(823,842)	(58,508)	- Tab A-3, Page 16
16							
17							
18	Net Plant in Service, Ending	$2,436,650	$2,474,556	$0	$2,474,556	$37,906	
19							
20							
21	Net Plant in Service, Beginning	$2,398,136	$2,441,117	$0	$2,441,117	$42,981	- Tab A-3, Page 9
22							
23							
24	Net Plant in Service, Mid-Year	$2,417,393	$2,457,837	$0	$2,457,837	$40,444	
25	Adjustment to 13-Month Average	-	-	-	-	-	
26	Construction Advances	(658)	(670)	-	(670)	(12)	
27	Work in Progress, No AFUDC	9,358	15,773	-	15,773	6,415	
28	Unamortized Deferred Charges	(27,047)	(32,644)	-	(32,644)	(5,597)	- Tab A-3, Page 14.1
29	Cash Working Capital	(28,452)	(34,086)	259	(33,827)	(5,375)	- Tab A-3, Page 15
30	Other Working Capital	136,843	138,868	-	138,868	2,025	- Tab A-3, Page 15
31	Deferred Income Tax, Mid-Year	(604)	(552)	-	(552)	52	
32	LILO Benefit	(1,980)	(1,814)	-	(1,814)	166	
33	Utility Rate Base	$2,504,853	$2,542,712	$259	$2,542,971	$38,118	

TERASEN GAS INC. Advance Materials Section A
Tab 1
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UTILITY INCOME AND EARNED RETURN
FOR THE YEAR ENDING DECEMBER 31, 2009
($000s)

Line No.	Particulars	2008 APPROVED	2009 Existing Rates	2009 ----Revised Rates----- Revised Revenue	2009 ----Revised Rates----- Total	Change	Reference
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	ENERGY VOLUMES (TJ)						
2	Sales	115,223	108,968	-	108,968	(6,255)	- Tab A-Tab 4, Page 11
3	Transportation	91,435	90,717	-	90,717	(718)	- Tab A-Tab 4, Page 11
4		206,658	199,685	-	199,685	(6,973)	
5							
6	Average Rate per GJ						
7	Sales	$12.498	$14.593	$0.000	$14.885	$2.387	
8	Transportation	$0.795	$0.782	$0.000	$0.832	$0.037	
9	Average	$7.320	$8.319	$0.000	$8.501	$1.181	
10							
11	UTILITY REVENUE						
12	Sales - Existing Rates	$1,432,963	$1,590,210	$0	$1,590,210	$157,247	- Tab A-Tab 4, Page 12
13	- Increase / (Decrease)	7,091	-	31,789	31,789	24,698	- Tab A-Tab 4, Page 14
14							
15	Transportation - Existing Rates	71,737	70,951	-	70,951	(786)	- Tab A-Tab 4, Page 12
16	- Increase / (Decrease)	980		4,547	4,547	3,567	- Tab A-Tab 4, Page 14
17	**Total**	1,512,771	1,661,161	36,336	1,697,497	184,726	
18							
19	Cost of Gas Sold (Including Gas Lost)	1,021,804	1,192,364	-	1,192,364	170,560	- Tab A-Tab 4, Page 13.1
20							
21	**Gross Margin**	490,967	468,797	36,336	505,133	14,166	
22							
23	Operation and Maintenance	169,802	173,151	-	173,151	3,349	- Tab A-5, Page 2
24	Vehicle Lease	1,988	1,804	-	1,804	(184)	
25	Property and Sundry Taxes	44,635	49,363	-	49,363	4,728	- Tab A-Tab 6, Page 4
26	Depreciation and Amortization	84,110	89,695	-	89,695	5,585	- Tab A-Tab 6, Page 7
27	Other Operating Revenue	(23,702)	(23,599)	-	(23,599)	103	- Tab A-Tab 4, Page 15
28		276,833	290,414	-	290,414	13,581	
29	Utility Income Before Income Taxes	214,134	178,383	36,336	214,719	585	
30							
31	Income Taxes	26,768	16,047	10,899	26,946	178	- Tab A-Tab 6, Page 5
32							
33	**EARNED RETURN**	$187,366	$162,336	$25,437	$187,773	$407	
34							
35	**UTILITY RATE BASE**	$2,504,853	$2,542,712	$259	$2,542,971	$38,118	- Tab A-1, Page 6
36							
37	**RATE OF RETURN ON UTILITY RATE BASE**	7.480%	6.380%		7.384%	-0.096%	

TERASEN GAS INC. | Advance Materials | Section A Tab 1 Page 8

INCOME TAXES / REVENUE DEFICIENCY
FOR THE YEAR ENDING DECEMBER 31, 2009
($000s)

Line No.	Particulars	2008 APPROVED	2009 Existing Rates	2009 ----Revised Rates----- Revised Revenue	2009 ----Revised Rates----- Total	Change	Reference
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	CALCULATION OF INCOME TAXES						
2	Earned Return	$187,366	$162,336	$25,437	$187,773	$407	- Tab A-1, Page 7
3	Deduct - Interest on Debt	(111,773)	(111,023)	(7)	(111,030)	743	- Tab A-1, Page 9
4	Add- Non-Tax Ded. Expense (Net)	(2,676)	328	-	328	3,004	- Tab A-Tab 6, Page 6
5							
6	Accounting Income After Tax	72,917	51,641	25,430	77,071	4,154	
7	Add (Deduct) - Timing Differences	(14,707)	(14,197)	-	(14,197)	510	- Tab A-Tab 6, Page 6
8	Add - Large Corporation Tax	-	-	-	-	-	
9							
10	Taxable Income After Tax	$58,210	$37,444	$25,430	$62,874	$4,664	
11							
12	Income Tax Rate (Current Tax)	31.500%	30.000%	30.000%	30.000%	-1.500%	
13	1 - Current Income Tax Rate	68.500%	70.000%	70.000%	70.000%	1.500%	
	Taxable Income Before Income Tax Deferred Income Tax						
14							
15	Taxable Income (L10 / L13)	$84,978	$53,491	$36,329	$89,820	$4,842	
16							
17							
18	Income Tax - Current (L12 x L15)	$26,768	$16,047	$10,899	$26,946	$178	
19	- Deferred Income Tax						
20	- Large Corporation Tax	-	-	-	-	-	
21							
22	**Total Income Tax**	$26,768	$16,047	$10,899	$26,946	$178	
23							
24	REVENUE DEFICIENCY						
25	Earned Return	$187,366		$25,437	$187,773	$407	- Tab A-1, Page 7
26	Add - Income Taxes	26,768		10,899	26,946	178	
27	Deduct - Utility Income Before Taxes,						
28	Present Rates	(206,063)		-	(178,383)	27,680	- Tab A-1, Page 7
29	Corporate Capital Tax	-		-	-	-	- Tab A-Tab 6, Page 9
30							
31	Deficiency After Corporate Capital Tax	$8,071		$36,336	$36,336	$28,265	

TERASEN GAS INC. Advance Materials Section A
Tab 1
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RETURN ON CAPITAL
FOR THE YEAR ENDING DECEMBER 31, 2009
($000s)

Line No.	Particulars	Reference	-------- Capitalization --------	Amount	%	Embedded Cost	Cost Component	Earned Return
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	2009 AT 2008 RATES							
2	Long-Term Debt			$1,504,299	59.16%	6.962%	4.12%	
3	Unfunded Debt			148,210	5.83%	4.250%	0.25%	
4	Preference Shares			-	0.00%	0.000%	0.00%	
5	Common Equity			890,203	35.01%	5.741%	2.01%	
6								
7		- Tab A-1, Page 6		$2,542,712	100.00%		6.38%	
8								
9	2009 REVISED RATES							
10	Long-Term Debt			$1,504,299	59.16%	6.962%	4.12%	$104,724
11	Unfunded Debt		$148,210					
12	Adjustment, Revised Rates		168	148,378	5.83%	4.250%	0.25%	6,306
13	Preference Shares			-	0.00%	0.000%	0.00%	-
14	Common Equity			890,294	35.01%	8.620%	3.02%	76,743
15								
16		- Tab A-1, Page 6		$2,542,971	100.00%		7.38%	$187,773
17								
18	2008 APPROVED RATES							
19	Long-Term Debt			$1,373,881	54.85%	7.211%	3.96%	$99,072
20	Unfunded Debt		$254,044					
21	Adjustment, Revised Rates		(21)	254,023	10.14%	5.000%	0.51%	12,701
22	Preference Shares			-	0.00%	0.000%	0.00%	-
23	Common Equity			876,949	35.01%	8.620%	3.02%	75,593
24								
25				$2,504,853	100.00%		7.48%	$187,366
26								
27	CHANGE FROM 2008 APPROVED RATES							
28	Long-Term Debt			$130,418	4.31%	-0.249%	0.16%	$5,652
29	Unfunded Debt		($105,834)					
30	Adjustment, Revised Rates		189	(105,645)	-4.31%	-0.750%	-0.26%	(6,395)
31	Preference Shares			-	0.00%	0.000%	0.00%	-
32	Common Equity			13,345	0.00%	0.000%	0.00%	1,150
33								
34				$38,118	0.00%		-0.10%	$407

2009 COST DRIVERS

The table below shows the Cost Driver forecasts which are used for setting the 2009 Targets as prescribed in Commission Order No. G-51-03 and G-33-07.

	2007 Actual	2008 Projected	2009 Forecast	
Cost Drivers				
Year End Customer Counts	822,598	831,734	840,421	Note 1
Customer Additions		9,136	8,687	
Average Customer Counts	816,421	825,957	834,916	Note 2
Change in Average Customers		9,536	8,959	Note 2
Percentage of Customer Growth - Average		1.17%	1.08%	
Escalators				
B.C. Inflation (CPI)			1.9%	Note 3
Adjustment Factor - % of CPI			66.0%	Note 4
Adjustment Factor			-1.25%	

Explanatory Notes

Note 1 2008 projection and 2009 forecast year end customer counts are explained under Tab 4 – Gas Sales and Transportation Volumes. Year end customer additions are used to calculate Capital Expenditures driven by customer addition.

Note 2 The percentage growth in average customer is used to calculate the formula based O & M Expense and Other Base Capital Expenditures. O & M Expense is to be per the PBR formula.

Note 3 Pursuant to the provisions of the Settlement Agreement pursuant to Commission Order G-51-03 and extended by Order No. G-33-07, the 2009 B.C. inflation forecast will be determined as the average of the forecasts from the Conference Board of Canada, the B.C. Ministry of Finance, the RBC Financial Group, and the Toronto-Dominion Bank.

Based on this formula, the B.C. CPI forecast for 2009 is 1.9%, and represents the average of the forecasts below as at October 8, 2008:

Conference Board of Canada	2.5%	(July 2008)
B.C. Ministry of Finance	2.0%	(September 2008)
RBC Financial Group	1.5%	(July 2008)
Toronto-Dominion Bank	1.7%	(April 2008)

(Copies of the forecasts are included as Attachment A-2)

In Appendix A to Commission Order No. G-153-07, the Commission directed TGI:

> "*...that for setting rates in future years TGI is to update the CPI (BC) for forecasts published up to and including the Annual Review meeting date.*"

Following the Annual Review Workshop, Terasen Gas will determine whether an update to CPI (BC) is required and if required, will make the change as a part of an evidentiary update submission.

Note 4 Pursuant to the provisions of Commission Order No. G-33-07, the adjustment factor will be 66% of CPI for 2009 equal to 1.25%.

Attachment A-2

The Conference Board of Canada

Forecast Completed: Jul. 18 2008

TABLE 11: KEY ECONOMIC INDICATORS, BRITISH COLUMBIA

	2007Q1	2007Q2	2007Q3	2007Q4	2008Q1	2008Q2	2008Q3	2008Q4	2009Q1	2009Q2	2009Q3	2009Q4	2007	2008	2009
G.D.P AT MARKET PRICES	186768	190501	191559	194368	194528	196869	199102	201499	203752	205889	208214	210688	190799	197999	207136
(MILLIONS $)	2.7	2.0	0.6	1.5	0.1	1.2	1.1	1.2	1.1	1.0	1.1	1.2	5.4	3.8	4.6
	12.4	12.4	12.4	12.5	12.3	12.3	12.2	12.2	12.3	12.3	12.3	12.3	12.4	12.3	12.3
G.D.P AT BASIC PRICES	171524	174777	175755	178334	179280	181462	183455	185636	187697	189647	191781	194055	175098	182458	190795
(MILLIONS $)	2.5	1.9	0.6	1.5	0.5	1.2	1.1	1.2	1.1	1.0	1.1	1.2	5.4	4.2	4.6
	12.2	12.2	12.2	12.2	12.1	12.0	12.0	12.0	12.0	12.1	12.1	12.1	12.2	12.0	12.1
G.D.P AT BASIC PRICES	148803	150625	150692	151647	152310	153328	154212	155181	156278	157559	158834	160067	150442	153758	158184
(MILLIONS $ 2002)	1.1	1.2	0.0	0.6	0.4	0.7	0.6	0.6	0.7	0.8	0.8	0.8	2.8	2.2	2.9
	12.3	12.3	12.3	12.3	12.4	12.4	12.4	12.4	12.4	12.4	12.4	12.4	12.3	12.4	12.4
CONSUMER PRICE INDEX (2002=1.0)	1.092	1.102	1.105	1.101	1.103	1.125	1.131	1.136	1.143	1.149	1.155	1.160	1.100	1.124	1.152
	0.6	0.9	0.2	-0.4	0.2	1.9	0.6	0.4	0.6	0.6	0.4	0.5	1.7	2.2	2.5
IMPLICIT PRICE DEFLATOR -	1.153	1.160	1.166	1.176	1.177	1.183	1.190	1.196	1.201	1.204	1.207	1.212	1.164	1.187	1.206
GDP AT BASIC PRICES (2002=1.0)	1.3	0.7	0.5	0.8	0.1	0.5	0.5	0.6	0.4	0.2	0.3	0.4	2.4	2.0	1.6
AVERAGE WEEKLY WAGE	731	738	742	749	750	757	764	771	776	783	789	795	740	761	786
($, INDUSTRIAL COMPOSITE)	0.9	0.9	0.6	0.9	0.1	1.0	0.9	0.9	0.7	0.8	0.8	0.8	3.3	2.7	3.3
PERSONAL INCOME (MILLIONS $)	149580	150897	152873	155620	158840	160436	162002	164088	165420	167191	168930	170673	152243	161342	168053
	2.3	0.9	1.3	1.8	2.1	1.0	1.0	1.3	0.8	1.1	1.0	1.0	6.8	6.0	4.2
	13.0	12.9	13.0	13.0	13.1	13.1	13.1	13.2	13.2	13.2	13.2	13.2	13.0	13.1	13.2
PERSONAL DISPOSABLE INCOME	116734	116654	118869	120816	123575	124848	126049	127671	128592	129901	131228	132559	118268	125536	130570
(MILLIONS $)	2.4	-0.1	1.9	1.6	2.3	1.0	1.0	1.3	0.7	1.0	1.0	1.0	6.7	6.1	4.0
	13.2	13.1	13.2	13.2	13.2	13.3	13.3	13.4	13.3	13.3	13.3	13.3	13.2	13.3	13.3
PERSONAL SAVINGS RATE	-2.5	-5.1	-4.6	-4.5	-3.1	-3.9	-4.3	-4.4	-4.4	-4.5	-4.6	-4.7	-4.1	-3.9	-4.6
	8.6	-103.6	9.4	2.4	31.4	-28.4	-9.5	-3.1	0.3	-2.3	-2.1	-2.5	15.5	5.0	-16.3
POPULATION OF LABOUR	3548	3562	3579	3597	3615	3633	3645	3658	3670	3682	3694	3707	3571	3638	3688
FORCE AGE	0.4	0.4	0.5	0.5	0.5	0.5	0.3	0.4	0.3	0.3	0.3	0.3	1.7	1.9	1.4
	13.4	13.4	13.5	13.5	13.5	13.5	13.5	13.5	13.5	13.5	13.5	13.5	13.4	13.5	13.5
LABOUR FORCE ('000s)	2351	2361	2364	2391	2409	2429	2431	2437	2442	2448	2453	2459	2367	2426	2451
	0.8	0.4	0.1	1.1	0.8	0.8	0.1	0.2	0.2	0.2	0.2	0.2	2.6	2.5	1.0
	13.2	13.2	13.2	13.2	13.3	13.3	13.3	13.3	13.3	13.3	13.3	13.3	13.2	13.3	13.3
EMPLOYMENT ('000s)	2255	2257	2265	2289	2309	2321	2322	2330	2337	2344	2351	2358	2267	2320	2347
	1.7	0.1	0.4	1.0	0.9	0.5	0.0	0.3	0.3	0.3	0.3	0.3	3.2	2.4	1.2
	13.5	13.4	13.4	13.5	13.5	13.5	13.5	13.5	13.5	13.5	13.5	13.5	13.4	13.5	13.5
UNEMPLOYMENT RATE	4.1	4.4	4.2	4.3	4.2	4.4	4.5	4.4	4.3	4.3	4.2	4.1	4.2	4.4	4.2
RETAIL SALES (MILLIONS $)	55160	56297	56612	57372	57604	58552	59393	60338	60889	61686	62482	63291	56361	58972	62087
	2.2	2.1	0.6	1.3	0.4	1.6	1.4	1.6	0.9	1.3	1.3	1.3	6.7	4.6	5.3
	13.7	13.6	13.7	13.7	13.5	13.5	13.6	13.6	13.5	13.5	13.5	13.5	13.7	13.6	13.5
HOUSING STARTS (NUMBER OF UNITS)	37808	37509	38887	42576	38767	36133	35539	34331	33196	32414	32175	32047	39195	36193	32458
	7.8	-0.8	3.7	9.5	-8.9	-6.8	-1.6	-3.4	-3.3	-2.4	-0.7	-0.4	7.6	-7.7	-10.3
	17.0	16.6	15.7	19.6	16.5	16.7	17.3	17.3	16.9	16.7	16.6	16.6	17.2	16.9	16.7

Sources: Statistics Canada, CMHC, The Conference Board of Canada.

Table 2.7.2 Components of Nominal Income and Expenditure

	2006	2007	2008 (Forecast)	2009 (Forecast)	2010 (Forecast)	2011 (Forecast)	2012 (Forecast)
Labour income[1] ($ million)	93,102	98,866	105,292	110,282	115,486	120,857	126,463
(% change)	8.5	6.2	6.5	4.7	4.7	4.7	4.6
Personal income ($ million)	141,098	150,379	158,659	165,526	173,046	180,919	189,202
(% change)	7.4	6.6	5.5	4.3	4.5	4.5	4.6
Corporate profits before taxes ($ million)	21,322	20,886	20,555	20,897	21,794	22,773	23,814
(% change)	6.7	-2.0	-1.6	1.7	4.3	4.5	4.6
Retail sales ($ million)	52,837	56,365	58,157	60,894	63,866	67,013	70,221
(% change)	7.2	6.7	3.2	4.7	4.9	4.9	4.8
Housing starts	36,443	39,195	37,092	32,933	31,519	31,071	30,650
(% change)	5.1	7.6	-5.4	-11.2	-4.3	-1.4	-1.4
Residential investment[2] ($ million)	17,191	19,223	20,175	20,338	21,150	22,184	23,227
(% change)	16.5	11.8	5.0	0.8	4.0	4.9	4.7
BC consumer price index (2001 = 100)	108.1	110.0	112.5	114.7	117.2	119.7	122.2
(% change)	1.7	1.8	2.2	2.0	2.1	2.1	2.1

[1] Domestic basis; wages, salaries and supplementary labour income.

[2] Includes renovations and improvements.

Table 2.7.3 Labour Market Indicators

	2006	2007	2008 (Forecast)	2009 (Forecast)	2010 (Forecast)	2011 (Forecast)	2012 (Forecast)
Population (on July 1) (000's)	4,320	4,380	4,440	4,498	4,558	4,619	4,680
(% change)	1.4	1.4	1.4	1.3	1.3	1.3	1.3
Labour force population, 15+ Years (000's)	3,511	3,571	3,639	3,698	3,757	3,815	3,871
(% change)	1.8	1.7	1.9	1.6	1.6	1.6	1.5
Net in-migration (000's)							
– International[1]	38.1	39.6	36.2	37.3	38.4	39.4	38.3
– Interprovincial	10.2	13.4	9.0	11.0	12.0	13.0	13.0
– Total	48.3	53.0	45.2	48.3	50.4	52.4	51.3
Participation rate[2] (%)	65.7	66.3	66.8	66.8	66.9	67.1	67.2
Labour force (000's)	2,305	2,366	2,431	2,471	2,515	2,559	2,603
(% change)	1.8	2.7	2.7	1.6	1.8	1.8	1.7
Employment (000's)	2,196	2,266	2,323	2,362	2,402	2,440	2,479
(% change)	3.1	3.2	2.5	1.7	1.7	1.6	1.6
Unemployment rate (%)	4.8	4.2	4.4	4.4	4.5	4.6	4.8

[1] International migration includes net non-permanent residents and returning emigrants less net temporary residents abroad.

[2] Percentage of the population 15 years of age and over in the labour force.

NEWS

BRITISH COLUMBIA IN THE MIDST OF A PROSPEROUS DECADE, SAYS RBC

TORONTO, July 3, 2008 — British Columbia's economy continues to trend above the national average, although further weakness in its exports is expected to restrain growth to 2.2 per cent in 2008 and 2.9 per cent in 2009, according to a provincial economic outlook released today by RBC.

"The current decade has proven to be very prosperous for British Columbia as 2007 marked the sixth consecutive year of economic growth above of the national average and we expect this trend to continue right through to 2010," said Craig Wright, senior vice-president and chief economist, RBC. "However, the challenges facing the province's exporters are many and do not appear to be letting up, particularly with respect to the rout in the U.S. housing construction sector."

According to the report, wood products are leading five of the top six export categories showing declines so far this year, with only the energy sector garnering a gain. Nevertheless, the province's strong domestic economy continues to adequately compensate for the trade sector slump and should help to keep British Columbia among the provincial growth leaders in Canada. However, signs of cooling are emerging domestically as well. Housing resale activity has levelled off and housing starts are forecast to soften over the course of the next two years. Growth in non-residential construction appears to be peaking. Consumer spending is on course to a slower pace as the momentum generated by the recent run-up in employment and steady decline in the unemployment rate starts to fade.

The main theme of the Provincial Outlook continues to be the different paths the Eastern and Western parts of the country are taking. Record-high commodity prices and strong global demand for resources sustain unprecedented prosperity in the Western provinces, while the strong Canadian dollar, downturn in the U.S. economy and high energy prices continue to cause hardship in key sectors in provinces east of Manitoba. Saskatchewan is projected to lead all of the provinces in economic growth for both 2008 and 2009, followed by Alberta, while Newfoundland and Labrador and Ontario are expected to lag the group this year, but should show some improvement next year.

- more -

The RBC Economics Provincial Outlook assesses the provinces according to economic growth, employment growth, unemployment rates, personal income growth, retail sales, housing starts, and the Consumer Price Index.

According to the report (available online as of 8 a.m. E.D.T., at www.rbc.com/economics/market/pdf/provfcst.pdf), provincial forecast details are as follows:

	Real GDP			Housing starts Thousands			Retail sales			Employment			CPI		
	07	**08**	**09**	**07**	**08**	**09**	**07**	**08**	**09**	**07**	**08**	**09**	**07**	**08**	**09**
NFLD.	**9.1**	**0.2**	**1.3**	**2.6**	**2.6**	**2.0**	**8.9**	**6.0**	**2.0**	**0.6**	**2.0**	**0.5**	**1.5**	**2.5**	**1.4**
P.E.I	**2.0**	**1.2**	**1.6**	**0.8**	**0.7**	**0.6**	**7.7**	**4.5**	**3.7**	**1.0**	**1.3**	**0.3**	**1.8**	**3.2**	**1.5**
N.S.	**1.6**	**2.0**	**2.4**	**4.8**	**4.7**	**4.0**	**4.2**	**5.5**	**4.5**	**1.3**	**1.0**	**1.9**	**1.9**	**3.0**	**1.6**
N.B.	**1.6**	**2.0**	**2.5**	**4.2**	**4.2**	**3.4**	**5.7**	**4.6**	**4.0**	**2.1**	**1.6**	**1.0**	**1.9**	**1.8**	**1.5**
QUE.	**2.4**	**1.0**	**2.3**	**48.6**	**47.1**	**40.0**	**4.6**	**4.3**	**4.4**	**2.3**	**1.4**	**1.3**	**1.6**	**2.2**	**1.4**
ONT.	**2.1**	**0.7**	**2.2**	**68.1**	**68.7**	**59.3**	**3.9**	**4.4**	**4.5**	**1.6**	**1.5**	**1.3**	**1.8**	**2.0**	**1.5**
MAN.	**3.3**	**2.7**	**2.7**	**5.7**	**5.9**	**4.5**	**8.8**	**8.5**	**7.0**	**1.6**	**2.1**	**1.7**	**2.0**	**2.0**	**1.5**
SASK.	**2.8**	**3.7**	**3.8**	**6.0**	**6.6**	**4.5**	**13.0**	**12.0**	**11.0**	**2.1**	**2.4**	**2.3**	**2.8**	**3.4**	**2.6**
ALTA.	**3.3**	**3.1**	**3.0**	**48.3**	**38.3**	**35.1**	**9.3**	**4.5**	**7.0**	**4.7**	**3.0**	**2.1**	**5.0**	**3.3**	**2.5**
B.C.	**3.1**	**2.2**	**2.9**	**39.2**	**37.2**	**30.5**	**6.7**	**4.5**	**7.5**	**3.2**	**2.6**	**2.5**	**1.8**	**2.0**	**1.5**
CANADA	**2.7**	**1.4**	**2.5**	**228**	**216**	**184**	**5.8**	**5.2**	**5.6**	**2.3**	**1.9**	**1.6**	**2.1**	**2.3**	**1.6**

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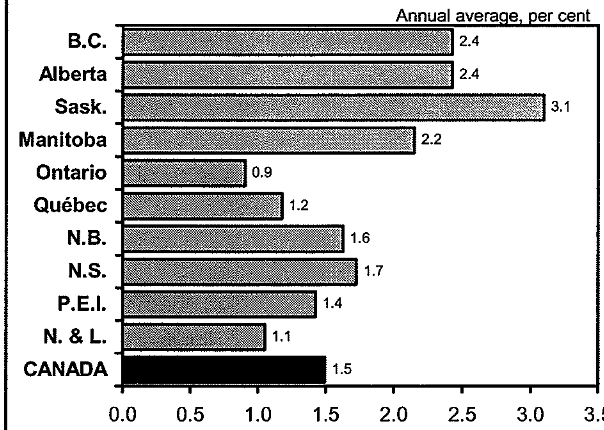
REAL GROSS DOMESTIC PRODUCT (GDP) Annual average per cent change						
	97-06	2005	2006	2007E	2008F	2009F
CANADA	**3.5**	**3.1**	**2.8**	**2.7**	**1.1**	**1.8**
N. & L.	4.4	0.4	3.3	8.0	1.0	1.2
P.E.I.	2.4	2.1	2.6	1.9	1.3	1.6
N.S.	2.9	1.6	0.9	2.0	1.5	2.0
N.B.	2.6	0.3	3.0	2.3	1.1	2.2
Québec	2.9	2.2	1.7	2.0	1.0	1.4
Ontario	3.7	2.8	2.1	1.9	0.5	1.3
Manitoba	2.7	2.7	3.2	3.0	2.0	2.3
Sask.	2.0	3.1	-0.4	3.9	3.2	3.0
Alberta	4.2	4.6	6.6	4.4	2.1	2.8
B.C.	3.0	4.5	3.4	3.2	2.2	2.7

E: Estimate; F: Forecast by TD Economics as at April 2008.
Source: Statistics Canada

REAL GDP GROWTH FORECAST* 2008-09



* Forecast by TD Economics as at April 2008.

EMPLOYMENT Annual average per cent change						
	98-07	2005	2006	2007	2008F	2009F
CANADA	**2.1**	**1.4**	**1.9**	**2.3**	**1.5**	**0.6**
N. & L.	1.5	-0.1	0.7	0.7	1.0	0.8
P.E.I.	1.7	2.0	0.5	1.2	0.9	0.4
N.S.	1.6	0.2	-0.3	1.3	1.3	0.6
N.B.	1.6	0.1	1.4	2.1	1.0	1.3
Québec	2.0	1.0	1.3	2.3	1.2	0.3
Ontario	2.2	1.3	1.5	1.5	1.0	0.4
Manitoba	1.3	0.6	1.2	1.6	1.9	0.7
Sask.	0.7	0.8	1.7	2.1	1.9	1.4
Alberta	3.0	1.5	4.8	4.7	2.7	1.5
B.C.	2.0	3.3	3.0	3.2	2.1	1.2

F: Forecast by TD Economics as at April 2008
Source: Statistics Canada.

UNEMPLOYMENT RATE Annual average, per cent						
	98-07	2005	2006	2007	2008F	2009F
CANADA	**7.1**	**6.8**	**6.3**	**6.0**	**6.0**	**6.3**
N. & L.	16.0	15.2	14.8	13.6	11.9	11.4
P.E.I.	11.9	10.9	11.1	10.3	9.8	9.7
N.S.	9.1	8.5	7.9	8.1	7.1	7.1
N.B.	10.0	9.7	8.7	7.6	8.0	7.8
Québec	8.7	8.3	8.0	7.2	7.2	7.6
Ontario	6.6	6.6	6.3	6.4	6.6	7.0
Manitoba	5.0	4.8	4.3	4.4	3.7	4.1
Sask.	5.3	5.1	4.6	4.2	3.6	3.9
Alberta	4.7	3.9	3.4	3.5	3.3	3.6
B.C.	7.1	5.9	4.8	4.2	4.2	4.9

F: Forecast by TD Economics as at April 2008
Source: Statistics Canada.

TOTAL CONSUMER PRICE INDEX Annual average per cent change						
	98-07	2005	2006	2007	2008F	2009F
CANADA	**2.1**	**2.2**	**2.0**	**2.1**	**1.5**	**1.9**
N. & L.	1.9	2.6	1.8	1.4	1.4	1.8
P.E.I.	2.3	3.2	2.2	1.8	1.6	2.1
N.S.	2.3	2.8	2.1	1.9	2.1	2.2
N.B.	2.1	2.4	1.7	1.9	1.3	1.7
Québec	2.0	2.3	1.7	1.6	1.3	1.7
Ontario	2.1	2.2	1.8	1.8	1.4	1.9
Manitoba	2.0	2.7	1.9	2.1	1.6	2.0
Sask.	2.3	2.2	2.0	2.9	3.2	3.0
Alberta	3.0	2.1	3.9	4.9	2.8	2.5
B.C.	1.7	2.0	1.7	1.7	1.2	1.7

F: Forecast by TD Economics as at April 2008.
Source: Statistics Canada.

RETAIL TRADE Annual average per cent change						
	98-07	2005	2006	2007	2008F	2009F
CANADA	**5.3**	**5.6**	**6.4**	**5.8**	**4.0**	**4.8**
N. & L.	5.3	1.2	3.7	9.5	3.6	2.9
P.E.I.	4.5	2.8	4.0	8.2	3.4	4.5
N.S.	4.1	2.2	6.3	4.0	3.9	4.4
N.B.	4.8	4.6	6.1	6.2	4.1	4.5
Quebec	4.9	5.1	5.1	4.3	3.0	3.6
Ontario	4.9	4.8	4.1	4.0	2.0	3.4
Manitoba	5.2	5.9	4.5	9.5	5.0	6.1
Sask.	5.3	5.2	6.5	12.9	8.4	6.0
Alberta	8.5	11.8	15.6	9.0	7.6	7.2
B.C.	4.5	4.4	6.8	7.2	6.3	6.8

F: Forecast by TD Economics as at April 2008
Source: Statistics Canada

2009 RATE BASE

The 2009 Rate Base for TGI is forecast to be $2.543 billion. Rate Base is composed of mid-year net gas plant in service, construction advances, work-in-progress not attracting AFUDC, unamortized deferred charges, cash working capital, other working capital, deferred income tax, LILO benefit.

The 2009 Rate Base of TGI includes full year impacts of the 2008 projected plant activities including:

- 2008 actual CPCN Opening Additions of $8.2 million
- Base Capital Additions of $121.4 million
- Plant Depreciation and CIAOC Amortization of $87.0 million

Also, the 2009 Rate Base includes 2009 activities including:

- 2009 CPCN Opening Additions assets of $12.9 million
- Base Capital Additions of $122.1 million
- Plant Depreciation and CIAOC Amortization of $89.8 million
- Various changes in deferred charges, working capital and other items decreasing rate base by a net amount of $2.3 million.

Details of the 2008 projected plant balances and the 2009 forecasted plant balances can be found in Section A, Tab 3, Pages 7 and 7.1.

2009 CAPITAL EXPENDITURES

The 2009 Capital Expenditures are based on the capital expenditure formula (approved by Commission Order No. G-51-03 and G-33-07), plus forecast CPCNs. The capital expenditure formula is composed of two cost components: Customer Addition Driven Capital and Other

Base Capital driven by average number of customers.

Per Commission Order No. G-51-03 and G-33-07, base capital expenditure amounts will not be rebased to actual amounts during the term. For the rate setting in subsequent years the formula base capital expenditures from the prior years will be adjusted for projected customer counts and trued up for actual customers as this information becomes known. There is no true up for actual CPI.

During the 2007 annual review, Terasen Gas had forecast 11,797 customer additions along with 829,970 average number of customers for 2008. The current projection for 2008 is 9,136 and 825,957, respectively. Accordingly, the total formula-based capital expenditures for 2008 derived from the projected customer addition numbers has decreased from $99.660 million to $93.509 million. As per the terms of the PBR customer additions will be trued up to actual for the purposes of setting rates for 2010. Supporting calculations can be found at Tab 3, Page 4.

The 2009 Capital Expenditure for TGI is calculated using the 2009 Forecast Unit Cost multiplied by customer accounts cost drivers as outlined in Tab 2, Page 1. The detail calculation is shown on Tab 3, Page 4.

- 2009 Forecast Unit Cost per Customer =
    - 2008 Unit Cost per Customer x ([1 + (CPI - Adjustment Factor)
- 2009 Capital Expenditure =
    - 2009 Forecast Unit Cost per customer x Cost Driver
    - The Cost Driver for:
        - Customer Addition Driven Capital is Number of Customer Additions
        - Other Base Capital is Average Number of Customers

2009 PLANT ADDITIONS

The 2009 Plant Additions are comprised of TGI's 2009 formula-driven Base Capital plant costs plus AFUDC, overhead capitalized for the year, and opening 2009 CPCN Additions. A reconciliation of capital expenditures to plant additions is shown on Section A, Tab 3, Page 5.

The 2009 Plant Additions allowed by the terms of the Settlement are $134.949 million. The Plant Addition summary is shown below:

2009 Plant Additions	
Formula-based Base Capital	$ 93.936 million
Overhead Capitalized	$ 28.115 million
AFUDC and WIP adjustments	$0.043 million
Sub-total Base Capital	$122.094 million
Special Projects & CPCN additions	$12.855 million
Total 2009 Plant Additions	$ 134.949 million

Consistent with the terms of the Settlement, the 2009 Contributions in Aid of Construction Additions ("CIAOC") are formula-based. The software tax savings are based on the software plant additions arising from the base capital additions formula. The other CIAOC consisting of main extensions, excess service line charges, billable alterations, meter & regulator equipment work, and other CIAOC have been calculated based on the PBR Formula. CIAOC is subject to the same adjustment and true-up process as base capital additions. Therefore, the CIAOC additions for 2009 have been adjusted based on projected 2008 customer counts. The 2009 CIAOC and 2008 formula updated CIAOC schedules can be found in Section A, Tab 3, Page 9.

As a part of the System Extension and Customer Connections Policies Review Application filed with the Commission on July 31, 2007, Terasen Gas requested approval to eliminate the Service Line Installation Fee for all customers requiring a main extension. The Commission approved this request in Order No. G-152-07. As a result, the CIAOC forecast for 2009 does not include any contributions related to Service Line Installation Fees

TERASEN GAS INC.
CAPITAL EXPENDITURES
FOR THE YEARS ENDING DECEMBER 31, 2008 to 2009

Section A
Tab 3
Page 4

Line. No.	Particulars	Settlement 2003	Approved 2004	Actual 2004	Approved 2005	Actual 2005	Approved 2006	Actual 2006	Approved 2007	Actual 2007	Approved * 2008	Projected 2008	Forecast 2009
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
1	Forecast CPI (BC)		1.70%	1.99%	2.00%	2.04%	2.20%	1.76%	2.00%	1.76%	2.00%	2.00%	1.90%
2	Adjustment Factor		0.85%	1.00%	1.00%	1.02%	1.45%	1.16%	1.32%	1.16%	1.32%	1.32%	1.25%
3													
4	CPI - Adjustment Factor		100.85%	101.00%	101.00%	101.02%	100.75%	100.60%	100.68%	100.60%	100.68%	100.68%	100.65%
5													
6													
7	**CUSTOMER ADDITION DRIVEN CAPITAL EXPENDITURES**												
8													
9	Customer Addition Driven Capital Expenditures Per Customer Addition	$2,093.04	$2,110.83	$2,110.83	$2,131.94	$2,131.94	$2,147.89	$2,147.89	$2,162.50	$2,162.50	$2,177.21	$2,177.21	$2,191.27
10													
11	Number of Customers Additions		8,604	11,504	10,144	12,345	12,692	10,194	13,385	13,039	11,797	9,136	8,687
12													
13	**Target Customer Addition Driven Capital Expenditures ($000)**		**$18,162**	**$24,283**	**$21,626**	**$26,319**	**$27,261**	**$21,896**	**$28,945**	**$28,197**	**$25,685**	**$19,891**	**$19,036**
14													
15													
16	**OTHER BASE CAPITAL EXPENDITURES**												
17													
18	Other Base Capital Expenditures Per Customer	$85.69	$86.42	$86.42	$87.28	$87.28	$87.93	$87.93	$88.53	$88.53	$89.13	$89.13	$89.71
19													
20	Average Number of Customers		777,779	779,461	790,385	791,593	804,316	802,778	820,347	816,421	829,970	825,957	834,916
21													
22	**Target Other Base Capital Expenditures ($000)**		**$67,216**	**$67,361**	**$68,985**	**$69,090**	**$70,724**	**$70,588**	**$72,625**	**$72,278**	**$73,975**	**$73,618**	**$74,900**
23													
24													
25													
26	**SUMMARY CAPITAL EXPENDITURES ($000)**												
27													
28	Target Customer Addition Driven Capital Expenditures		$18,162	$24,283	$21,626	$26,319	$27,261	$21,896	$28,945	$28,197	$25,685	$19,891	$19,036
29	Target Other Base Capital Expenditures		67,216	67,361	68,985	69,090	70,724	70,588	72,625	72,278	73,975	73,618	74,900
30													
31	Total Target Base Capital Expenditures		$85,378	$91,644	$90,611	$95,409	$97,985	$92,484	$101,570	$100,475	$99,660	$93,509	$93,936
32													
33													
34	**Total Base Capital Additions excluding Forecast CPCN Additions ($000)**		**$85,378**	**$91,644**	**$90,611**	**$95,409**	**$97,985**	**$92,484**	**$101,570**	**$100,475**	**$99,660**	**$93,509**	**$93,936**

Note:
* TGI and TGS were amalgamated on 1 January 2007.

TERASEN GAS INC.
CAPITAL EXPENDITURES AND PLANT ADDITIONS
FOR THE YEARS ENDING DECEMBER 31, 2008 and 2009
($000)

Line No.	Particulars (1)	Approved 2008 (2)	Adjusted 2008 (3)	Forecast 2009 (4)
1	**CAPITAL EXPENDITURES**			
2				
3	Base Capital Expenditures			
4	Customer Addition Driven Capital Expenditures	$ 25,685	$ 19,891	$ 19,036
5	Other Base Capital Expenditures	73,975	73,618	74,900
6				
7	Total Base Capital Expenditures	99,660	93,509	93,936
8				
9	Special Projects - CPCN's			
10	Vancouver LP Replacement	6,358	6,781	-
12	Squamish Amalgamation into TGI			
13	Mission IP Pipeline System Upgrade			
14	MobileUp Replacement CPCN	2,891	3,548	
15	Fraser River SBSA Rehabilitation	1,500	800	14,100
16	Okanagan Reinforcement Project P-224			1,500
17	Gateway	-		
18	CIS CPCN			12,150
19	Total CPCN's	10,749	11,129	27,750
20				
21				
22	TOTAL CAPITAL EXPENDITURES	$ 110,409	$ 104,638	$ 121,686
23				
24				
25	**RECONCILIATION OF CAPITAL EXPENDITURES TO PLANT ADDITIONS**			
26				
27	Base Capital			
28	Base Capital Expenditures	$ 99,660	$ 93,509	$ 93,936
29	Add - Opening WIP	12,521	12,390	19,229
30	Less - Opening WIP Adjustment			
31	Less - Closing WIP	(12,649)	(19,229)	(19,387)
32	Capital Spares Inventory		7,013	
33	Add - AFUDC	994	195	201
34	Add - Overhead Capitalized	27,552	27,543	28,115
35				
36	TOTAL BASE CAPITAL ADDITIONS TO GAS PLANT IN SERVICE	128,078	121,420	122,094
37	Special Projects - CPCN's			
38	CPCN Expenditures	10,749	11,129	27,750
39	Add - Opening WIP	13,426	11,359	14,974
40	Less - Closing WIP	(14,535)	(14,974)	(30,787)
41				
42	Add - AFUDC	453	682	919
43	TOTAL CPCN ADDITIONS TO OPENING GAS PLANT IN SERVICE	10,093	8,196	12,855
44				
45	TOTAL PLANT ADDITIONS	$ 138,171	$ 129,617	$ 134,949

TERASEN GAS INC. — Advance Materials — Section A, Tab 3, Page 6

UTILITY RATE BASE
FOR THE YEAR ENDING DECEMBER 31, 2009
($000s)

Line No.	Particulars	2008 APPROVED	2009 Existing Rates	2009 Adjustments	2009 Revised Rates	Change	Reference
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	**Plant in Service, Beginning**	$3,242,849	$3,337,484	$0	$3,337,484	$94,635	- Tab A-3, Page 7.1
2	CPCN's	10,092	12,855	0	12,855	2,763	- Tab A-3, Page 7.1
3							
4	Additions	128,069	122,094	0	122,094	(5,975)	- Tab A-3, Page 7.1
5	Disposals	(32,478)	(28,635)	0	(28,635)	3,843	- Tab A-3, Page 7.1
6							
7	Plant in Service, Ending	3,348,532	3,443,798	0	3,443,798	95,266	
8							
9	Add - Intangible Plant	1,614	1,614	0	1,614	0	
10							
11		3,350,146	3,445,412	0	3,445,412	95,266	
12							
13	Contributions In Aid of Construction	(148,162)	(147,014)	0	(147,014)	1,148	- Tab A-3, Page 8
14							
15	Less - Accumulated Depreciation	(765,334)	(823,842)	0	(823,842)	(58,508)	- Tab A-3, Page 16
16							
17							
18	**Net Plant in Service, Ending**	$2,436,650	$2,474,556	$0	$2,474,556	$37,906	
19							
20							
21	**Net Plant in Service, Beginning**	$2,398,136	$2,441,117	$0	$2,441,117	$42,981	- Tab A-3, Page 9
22							
23							
24	Net Plant in Service, Mid-Year	$2,417,393	$2,457,837	$0	$2,457,837	$40,444	
25	Adjustment to 13-Month Average	0	0	0	0	0	
26	Construction Advances	(658)	(670)	0	(670)	(12)	
27	Work in Progress, No AFUDC	9,358	15,773	0	15,773	6,415	
28	Unamortized Deferred Charges	(27,047)	(32,644)	0	(32,644)	(5,597)	- Tab A-3, Page 14.1
29	Cash Working Capital	(28,452)	(34,086)	259	(33,827)	(5,375)	- Tab A-3, Page 15
30	Other Working Capital	136,843	138,868	0	138,868	2,025	- Tab A-3, Page 15
31	Deferred Income Tax, Mid-Year	(604)	(552)	0	(552)	52	
32	LILO Benefit	(1,980)	(1,814)	0	(1,814)	166	
33	**Utility Rate Base**	$2,504,853	$2,542,712	$259	$2,542,971	$38,118	

TERASEN GAS INC.

Advance Materials — Section A, Tab 3, Page 7

GAS PLANT IN SERVICE CONTINUITY SCHEDULE
FOR THE YEARS ENDING DECEMBER 31, 2008 AND 2009
($000s)

Line No.	Particulars	Balance 12/31/2007	CPCN'S	2008 Additions	Retirements	Transfers/ Recovery	Balance 12/31/2008	CPCN'S	2009 Additions	Retirements	Transfers/ Recovery	Balance 12/31/2009
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1	**INTANGIBLE PLANT**											
2	401-00 Franchise and Consents	$99	$0	$0	$0	$0	$99	$0	$0	$0	$0	$99
3	402-00 Utility Plant Acquisition Adjustment	835	-	-	-	-	835	-	-	-	-	835
4	402-00 Other Intangible Plant	-	-	-	-	-	-	-	-	-	-	-
5	TOTAL INTANGIBLE PLANT	934	-	-	-	-	934	-	-	-	-	934
6												
7	**MANUFACTURED GAS / LOCAL STORAGE**											
8	430 Manufact'd Gas - Land	31	-	-	-	-	31	-	-	-	-	31
9	432 Manufact'd Gas - Struct. & Improvements	438	-	-	-	-	438	-	-	-	-	438
10	433 Manufact'd Gas - Equipment	139	-	-	-	-	139	-	-	-	-	139
11	434 Manufact'd Gas - Gas Holders	358	-	-	-	-	358	-	-	-	-	358
12	436 Manufact'd Gas - Compressor Equipment	53	-	-	-	-	53	-	-	-	-	53
13	437 Manufact'd Gas - Measuring & Regulating Equipment	309	-	-	-	-	309	-	-	-	-	309
14	440/441 Land in Fee Simple and Land Rights	927	-	-	-	-	927	-	-	-	-	927
15	442 Structures & Improvements	5,455	-	-	-	-	5,455	-	-	-	-	5,455
16	443 Gas Holders - Storage	18,622	-	654	-	-	19,276	-	671	-	-	19,947
17	446 Compressor Equipment	-	-	-	-	-	-	-	-	-	-	-
18	447 Measuring & Regulating Equipment	-	-	-	-	-	-	-	-	-	-	-
19	448 Purification Equipment	-	-	-	-	-	-	-	-	-	-	-
20	449 Local Storage Equipment	16,734	-	-	-	-	16,734	-	-	-	-	16,734
21	TOTAL MANUFACTURED GAS / LOCAL STORAGE	43,066	-	654	-	-	43,720	-	671	-	-	44,391
22												
23	**TRANSMISSION PLANT**											
24	460-00 Land in Fee Simple	7,444	-	-	-	-	7,444	-	-	-	-	7,444
25	461-00 Land Rights	43,484	(42)	1,380	-	-	44,822	-	1,405	-	-	46,227
26	461-10 Land Rights - Byron Creek	-	-	-	-	-	-	-	-	-	-	-
27	462-00 Compressor Structures	16,052	-	452	-	-	16,504	-	464	-	-	16,968
28	463-00 Measuring Structures	4,363	-	-	-	-	4,363	-	-	-	-	4,363
29	464-00 Other Structures & Improvements	4,881	-	-	-	-	4,881	-	-	-	-	4,881
30	465-00 Mains	710,543	674	3,592	(180)	-	714,629	-	3,687	(184)	-	718,132
31	465-10 Mains - Byron Creek	702	-	-	-	-	702	-	-	-	-	702
32	466-00 Compressor Equipment	103,993	-	54	-	-	104,047	-	56	-	-	104,103
33	467-00 Measuring & Regulating Equipment	49,799	-	5,962	-	-	55,761	-	6,119	-	-	61,880
34	467-10 Telemetering	5,995	-	-	-	-	5,995	-	-	-	-	5,995
35	467-20 Measuring & Regulating Equipment - Byron Creek	-	-	-	-	-	-	-	-	-	-	-
36	468-00 Communication Structures & Equipment	3,194	-	782	-	-	3,976	-	803	-	-	4,779
37	469-00 Other Transmission Equipment	-	-	-	-	-	-	-	-	-	-	-
38	TOTAL TRANSMISSION PLANT	950,450	632	12,222	(180)	-	963,124	-	12,534	(184)	-	975,474

TERASEN GAS INC.

Advance Materials Section A
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GAS PLANT IN SERVICE CONTINUITY SCHEDULE
FOR THE YEARS ENDING DECEMBER 31, 2008 AND 2009
($000s)

Line No.	Particulars	Balance 12/31/2007	CPCN'S	2008 Additions	Retirements	Transfers/ Recovery	Balance 12/31/2008	CPCN'S	2009 Additions	Retirements	Transfers/ Recovery	Balance 12/31/2009
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1	**DISTRIBUTION PLANT**											
2	470-00 Land in Fee Simple	$3,249	$0	$0	$0	$0	$3,249	$0	$0	$0	$0	$3,249
3	471-00 Land Rights	803	-	-	-	-	803	-	-	-	-	803
4	471-10 Land Rights - Byron Creek	1	-	-	-	-	1	-	-	-	-	1
5	472-00 Structures & Improvements	6,461	-	419	-	-	6,880	-	430	-	-	7,310
6	472-10 Structures & Improvements - Byron Creek	2,000	-	-	-	-	2,000	-	-	-	-	2,000
7	473-00 Services	607,034	-	21,000	(3,150)	-	624,884	7,193	20,281	(3,042)	-	649,316
8	474-00 House Regulators & Meter Installations	168,226	-	10,176	(509)	-	177,893	-	10,315	(516)	-	187,692
9	475-00 Mains	830,675	7,564	33,512	(3,351)	-	868,400	-	33,668	(3,367)	-	898,701
10	476-00 Compressor Equipment	575	-	-	-	-	575	-	-	-	-	575
11	477-00 Measuring & Regulating Equipment	92,234	-	11,102	(555)	-	102,781	-	11,394	(570)	-	113,605
12	477-00 Telemetering	5,638	-	162	(8)	-	5,792	-	166	(8)	-	5,950
13	477-10 Measuring & Regulating Equipment - Byron Creek	-	-	-	-	-	-	-	-	-	-	-
14	478-00 Meters	225,961	-	11,500	(575)	-	236,886	-	11,593	(580)	-	247,899
15	479-00 Other Distribution Equipment	26	-	-	-	-	26	-	-	-	-	26
16	TOTAL DISTRIBUTION PLANT	1,942,883	7,564	87,871	(8,148)	-	2,030,170	7,193	87,847	(8,083)	-	2,117,127
17												
18	**GENERAL PLANT & EQUIPMENT**											
19	480-00 Land in Fee Simple	21,005	-	22	-	-	21,027	-	23	-	-	21,050
20	481-00 Land Rights	-	-	-	-	-	-	-	-	-	-	-
21	482-00 Structures & Improvements	-	-	-	-	-	-	-	-	-	-	-
22	- Frame Buildings	5,071	-	-	-	-	5,071	-	-	-	-	5,071
23	- Masonry Buildings	74,722	-	-	-	-	74,722	-	-	-	-	74,722
24	- Leasehold Improvement	5,386	-	665	-	-	6,051	-	676	-	-	6,727
25	483-00 Office Furniture and Equipment	-	-	-	-	-	-	-	-	-	-	-
26	- Furniture & Equipment	24,706	-	508	(1,264)	-	23,950	-	517	(90)	-	24,377
27	- Computer Hardware	28,600	-	6,935	(755)	-	34,780	321	7,057	(8,956)	-	33,202
28	- Computer Software (Infrastructure)	72,590	-	6,424	(14,215)	-	64,799	5,341	6,541	(8,983)	-	67,698
29	- Computer Software (Non-Infrastructure)	18,385	-	2,600	(4,564)	-	16,421	-	2,647	(1,473)	-	17,595
30	484-00 Transportation Equipment	829	-	51	-	-	880	-	52	-	-	932
31	485-00 Heavy Work Equipment	366	-	-	-	-	366	-	-	-	-	366
32	486-00 Small Tools & Equipment	33,510	-	2,322	(2,346)	-	33,486	-	2,363	(327)	-	35,522
33	487-00 Equipment on Customer's Premises	1	-	-	-	-	1	-	-	-	-	1
34	- VRA Compressor Installation Costs	-	-	-	-	-	-	-	-	-	-	-
35	488-00 Communications Equipment	-	-	-	-	-	-	-	-	-	-	-
36	- Telephone	11,360	-	579	(45)	-	11,894	-	589	(10)	-	12,473
37	- Radio	5,787	-	567	(419)	-	5,935	-	577	(529)	-	5,983
38	489-00 Other General Equipment	-	-	-	-	-	-	-	-	-	-	-
39	TOTAL GENERAL PLANT	302,318	-	20,673	(23,608)	-	299,383	5,662	21,042	(20,368)	-	305,719
40												
41	**UNCLASSIFIED PLANT**											
42	499 Plant Suspense	153	-	-	-	-	153	-	-	-	-	153
43	TOTAL UNCLASSIFIED PLANT	153	-	-	-	-	153	-	-	-	-	153
44												
45	TOTAL CAPITAL	$3,239,804	$8,196	$121,420	($31,936)	$0	$3,337,484	$12,855	$122,094	($28,635)	$0	$3,443,798
46												
47												
48	TOTAL CAPITAL	$3,239,804	$8,196	$121,420	($31,936)	$0	$3,337,484	$12,855	$122,094	($28,635)	$0	$3,443,798

TERASEN GAS INC. Advance Materials Section A
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CONTRIBUTIONS IN AID OF CONSTRUCTION
FOR THE YEAR ENDING DECEMBER 31, 2009
($000s)

Line No.	Particulars (1)		Balance 12/31/2008 (2)	CPCN Adjustment (3)	2009 Additions (4)	2009 Retirements (5)	Balance 12/31/2009 (6)
1	**CIAOC**						
2							
3	DSEP/GEAP	211 - 06	$12,671	$0	$0	$0	$12,671
4							
5	Furniture & Equipment	211 - 10	111	-	-	-	111
6							
7	Software Tax Savings - Non-Infrastructure	211 - 11	3,812	-	787	(548)	4,051
8	- Infrastructure/Custom	211 - 11	28,633	-	3,295	(7,684)	24,244
9							
10	Service Installation Fee	211 - 12	26,337	-	-	-	26,337
11							
12	Other	211-00 to 05	76,859	-	2,741	-	79,600
13							
14	TOTAL Contributions		148,423	-	6,823	(8,232)	147,014
15							
16							
17							
18	**Amortization**	211-15 to 22					
19							
20	Software Tax Savings - Non-Infrastructure		(2,525)	-	(762)	548	(2,739)
21	- Infrastructure/Custom		(14,837)	-	(3,579)	7,684	(10,732)
22							
23	Other		(28,813)	-	(2,552)	-	(31,365)
24							
25	TOTAL Amortization		(46,175)	-	(6,893)	8,232	(44,836)
26							
27	**NET CONTRIBUTIONS**		$102,248	$0	($70)	$0	$102,178

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CONTRIBUTIONS IN AID OF CONSTRUCTION
FOR THE YEAR ENDING DECEMBER 31, 2008
($000s)

Line No.	Particulars (1)		Balance 12/31/2007 (2)	CPCNs / Adjustment (3)	2008 Additions (4)	2008 Retirements (5)	TGI Balance 12/31/2008 (6)
1	**CIAOC**						
2							
3	DSEP/GEAP	211 - 06	$12,671	$0	$0	$0	$12,671
4							
5	Furniture & Equipment	211 - 10	111	-	-	-	111
6							
7	Software Tax Savings - Non-Infrastructure	211 - 11	4,257	-	797	(1,242)	3,812
8	- Infrastructure/Custom	211 - 11	25,429	-	3,354	(150)	28,633
9							
10	Service Installation Fee	211 - 12	24,373	-	1,964	-	26,337
11							
12	Other	211-00 to 05	74,106	-	2,753	-	76,859
13							
14	TOTAL Contributions		140,947	-	8,868	(1,392)	148,423
15							
16							
17							
18	**Amortization**	211-15 to 22					
19							
20	Software Tax Savings - Non-Infrastructure		(2,916)	-	(851)	1,242	(2,525)
21	- Infrastructure/Custom		(11,808)	-	(3,179)	150	(14,837)
22							
23	Other		(26,365)	-	(2,448)	-	(28,813)
24							
25	TOTAL Amortization		(41,089)	-	(6,478)	1,392	(46,175)
26							
27	**NET CONTRIBUTIONS**		$99,858	$0	$2,390	$0	$102,248

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NET GAS PLANT IN SERVICE - OPENING BALANCE
FOR THE YEARS ENDING DECEMBER 31, 2008 AND 2009
($000s)

Line No.	Particulars	PROJECTION 2008	FORECAST 2009	Reference
	(1)	(2)	(3)	(4)
1	Gas Plant in Service - December 31, Previous Year	$3,239,804	$3,337,484	- Tab A-3, Page 7.1
2				
3	Add: CPCNs on January 1, Beginning of the Year	8,196	12,855	- Tab A-3, Page 7.1
4				
5	Adjusted Opening Gas Plant in Service	3,248,000	3,350,339	
6				
7	Intangible Plant	1,614	1,614	- Tab A-1, Page 6
8				
9	Less: Contribution in Aid of Construction	(140,947)	(148,423)	- Tab A-3, Page 8
10				
11	Less: Accumulated Depreciation and Amortization	(713,477)	(762,413)	- Tab A-3, Page 16
12				
13				
14	Net Gas Plant in Service as at January 1, Beg of Year	2,395,190	2,441,117	- Tab A-1, Page 6

DEFERRED CHARGES

The 2009 deferred charges and amortization (Section A, Tab 3, Pages 14 and 14.1) have been determined in accordance with the BCUC Decision dated February 4, 2003 on Terasen Gas' 2003 revenue requirements and the 2004-2007 PBR Plan Settlement Terms approved by Commission Order No. G-51-03 and extended by Order No. G-33-07. The schedule of 2008 projected deferred charges and amortization is found in Section A, Tab 3, Pages 14.2 and 14.3.

Commodity Cost and Midstream Reconciliation Accounts

With the implementation of the Commercial Commodity Unbundling Program the GCRA, effective April 1, 2004, was divided into a Commodity Cost Reconciliation Account (CCRA) and a Midstream Cost Reconciliation Account (MCRA).

CCRA is designated to capture and account for costs and recoveries associated with the baseload supply and for all of Terasen Gas' sales customers. MCRA is designated to capture and account for costs and recoveries associated with the remaining resources required to meet design peak day. The CCRA will capture the costs incurred by Terasen Gas to purchase its portion of the baseload gas requirements and the revenue collected by Terasen Gas through gas commodity rates. The MCRA will capture all the costs associated with the Midstream function and the revenue collected by Terasen Gas through midstream rates. The MCRA will also capture the costs associated with the Terasen Gas (Vancouver Island) Inc.

Future disposition of CCRA/MCRA balances will be determined based on the net-of-tax balance in accordance with Commission Order No. G-34-03.

Large Corporations Tax

The corporate income tax rate for 2009 reflects the elimination of the Large Corporations Tax ("LCT") effective January 1, 2006 as announced in the 2006 Federal Budget. As per the 2004 – 2007 PBR Settlement Agreement, the impact of the LCT rate change for calendar 2006 has been deferred and refunded to customers over three years beginning in 2007.

The income tax rate as filed for determination of 2007 rates included a surtax credit carried back to offset prior years' LCT. This surtax credit was not available to TGI in preparing its 2007 tax returns, resulting in a 1.12% higher tax rate than forecast. Accordingly, Terasen Gas is requesting approval to amortize, in 2009, the $1.049 million charged to the deferral account in 2008. This $1.049 million amortization offsets the original $3.103 million credit that was being amortized 2007 through 2009; the net amortization in 2009 is a credit of $0.014 million, leaving a zero balance in the deferral account as at December 31, 2009.

SCP Reassessment

As stated under Section B, Tab 7 under Exogenous Factors, Terasen Gas has been assessed provincial sales tax related to the SCP project. Terasen Gas does not agree with the reassessment and is appealing. While these reassessments are being appealed, Terasen Gas remitted a net payment of $7.1 million in 2007 ($10 million initial payment with a refund of $2.9 million) to prevent further accrual of interest, which will be refundable with interest in the event Terasen Gas is successful on appeal. Legal fees of $0.2 million were incurred in 2008. Accordingly, Terasen Gas will continue to collect in a rate base deferral account, the net payment along with cost of the appeal since these are imposed on Terasen Gas by outside authorities over which the Company has no control. When the appeal is resolved, Terasen Gas will seek a Commission order with respect to the disposition of the deferral account.

Carbon Tax

Also stated in Section B, Tab 7 under Exogenous Factors, Terasen Gas filed a Carbon Tax and Provincial Tax Rate Treatment Application in response to the release of Bill 2 and Bill 37 by the Province of British Columbia. This application identified the cost of service impacts incurred as a result of the decrease in the provincial tax rate from 12% to 11% in 2008 and the consumption of fossil fuels for the operation of Terasen Gas's business. It was the company's position and subsequently approved by the Commission through Order No. G-88-08, that these changes fall under the deferral account treatment with three year amortization to "record variances in property taxes, income tax rates, LT rates and any new government tax expenses, charges and levies" as approved by Orders No. G-51-03 and No. G-33-07. The net reduction of taxes to the deferral account is projected to be $0.3 million for 2008.

The Carbon Tax and Provincial Rate Treatment Application also identified one time estimated software upgrade, tax consulting and legal fee costs of $0.3 million associated with the implementation of the Carbon Tax Act. As a result, Terasen Gas requested and received Commission approval through Order No. G-88-08, subject to a review of actual expenditures, for deferral account treatment associated with one time Carbon Tax implementation costs.

Olympic Security Costs

Also stated in Section B, Tab 7 under Exogenous Factors, Terasen Gas is applying for approval of critical security costs related to the 2010 Winter Olympic and Paralympic Games to be recovered from ratepayers through deferral account treatment with a three year amortization period commencing in 2011. The addition to the deferral count for 2009 and 2010 is projected to be $3.8 million; $0.7 million in 2009 and $2.7 million in 2010.

Revenue Requirement Applications

Consistent with past practice, incremental costs associated with preparing upcoming revenue requirement applications are afforded deferral treatment. Accordingly, a deferral account has been set up in Section A, Tab 3, Pages 14 and 14.2 to capture these expected costs.

OSC Compliance

Anticipated on-going costs of OSC compliance are expected to decline slightly between 2008 and 2009; costs in 2009 are estimated to be $117,000 compared to $124,700 included in the 2008 revenue requirement for Terasen Gas. These costs have been determined in accordance with the allocation process as directed by BCUC Order No. G-112-04.

IFRS Implementation

As discussed in Section B, Tab 7 under Exogenous Factors, the Company requests a rate base deferral account to capture the actual incremental costs of IFRS implementation with a three year amortization, starting in 2011 (the year of adoption of IFRS). Information on the proposed IFRS changes, and their implications for future regulatory filings, will be the subject of a separate, future submission.

Energy Efficiency & Conservation

On May 28, 2008, Terasen Gas Inc. submitted the Energy Efficiency and Conservation ("EEC") Programs Application pursuant to BCUC Order No. G-33-07 and consistent with the 2007 Provincial Government Energy Plan. With the EEC Application, as reflected on Page 14, Terasen Gas has requested expanded funding, in the amount of $46.944 million over three years. Further information regarding TGI's EEC and other Demand Side Management efforts can be found in Section B, Tab 3.

Deferred Service Line Installation Fee

Subsequent to the System Extension and Customer Connection Policies Review in late 2007, Order No. G-153-07 approved a deferral account to capture the Service Line Installation Fee which was no longer collected from customers beginning in 2008. In accordance with the Order, the deferral has been moved to rate base in 2009 and no additional costs will be incurred.

BCUC Levies

BCUC levies as calculated by the O&M formula in the 2008 rates have exceeded the 2008 actual projected BCUC levies by $437,600. Terasen Gas has deferred this amount in 2008 and will return the full amount of the excess to customers in 2009.

BCUC levies embedded in 2003 Decision	$1,345,000
2008 levies as calculated with O&M formula	$1,508,700
2008 projected BCUC Levies	(1,084,200)
True up 2007 Projected BCUC Levies	13,100
Amount to return to customers in 2009	($437,600)

Rate Stabilization Adjustment Mechanism ("RSAM")

Terasen Gas forecasts that there will be approximately $6.3 million in RSAM draw-downs by the end of 2008. After offsetting the 2008 RSAM Rider recoveries, the RSAM account, including interest is now projected to be $0.159 million by the end of 2008. In accordance with the 2004-2007 PBR Settlement, the RSAM balance is to be amortized over three years. Therefore the RSAM balance amortized in 2009 is $82,000.

Terasen Gas requests Commission approval to decrease the RSAM rider by $0.094GJ from the currently approved level of $0.095/GJ to $0.001/GJ effective January 1, 2009.

Line No.	Particulars	Annual Volumes (TJ)	Amortization ($000s)	RSAM Unit Rider ($/GJ)
	(1)	(2)	(3)	(4)
1	**RSAM (Rider 5) Calculation**			
2				
3	Rate 1 - Residential	68,555.9		$0.001
4	Rate 2 - Small Commercial	22,884.1		$0.001
5	Rate 3 - Large Commercial	14,015.6		$0.001
6	Rate 23 - Large Commercial Transportation	6,130.9		$0.001
7		111,586.5	$82	
8				
9	Amortization = 1/3 of Projected December 31, 2008 RSAM Balance			
10	= 1/3 * ($121 RSAM + $38 RSAM Interest)			
11	= 1/3 * $159			
12	= $53 Net-of-tax amortization			
13				
14	Gross Amortization = Net-of-tax amortization / (1 - tax rate) + tax adjustment			
15	= $53 / (1 - 30%) + $6			
16	= $82			

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UNAMORTIZED DEFERRED CHARGES AND AMORTIZATION
FOR THE YEAR ENDING DECEMBER 31, 2009
($000s)

Line No.	Particulars	Account	Forecast Balance 12/31/2008	Gross Additions	Less- Taxes *	Net Additions	Amortization Expense	Amortization Other **	Balance 12/31/2009	Mid-Year Average 2009
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1	Deferred Interest	# 17904	$28.3	$0.0	$0.0	$0.0	($50.1)	$0.0	($21.8)	$3.3
2	Deferred Interest - funding benefits via Customer Depo	# 17904A	15.6	-	-	-	(0.6)	-	15.0	15.3
3										
4	NGV Conversion Grants	# 17977	137.5	-	-	-	(43.1)	-	94.4	116.0
5										
6	2003 Revenue Requirement	# 17989	(0.2)	-	-	-	0.2	-	0.0	(0.1)
7	2004-2007 Revenue Requirements	# 17952	-	-	-	-	-	-	-	-
8	Future Revenue Requirements	# 18160	53.1	-	-	-	-	-	53.1	53.1
9										
10	Energy Efficency & Conservation (EEC)	# 17916	1,789.0	19,564.0	(5,869.2)	13,694.8	(436.2)	-	15,047.6	8,418.3
11										
12	Property Tax Deferral	# 17915	(747.9)	-	-	-	478.2	-	(269.7)	(508.8)
13										
14	M.C.R.A.	# 17926	17,425.5	(24,893.6)	7,468.1	(17,425.5)	-	-	-	8,712.8
15	C.C.R.A.	# 18137	(23,846.2)	34,066.0	(10,219.8)	23,846.2	-	-	-	(11,923.1)
16	C.C.R.A./M.C.R.A Interest	# 17973	(2,105.8)	3,008.3	(902.5)	2,105.8	-	-	-	(1,052.9)
17										
18	RSAM	# 17927	121.3	-	16.8	16.8	-	(56.1)	82.0	101.7
19	RSAM Interest	# 17999	38.1	(49.0)	22.4	(26.6)	-	(25.6)	(14.1)	12.0
20										
21	Revelstoke Propane Cost	# 27902	33.5	(47.9)	14.4	(33.5)	-	-	-	16.8
22										
23	Vehicle Lease Deferral	# 17941	0.2	-	-	-	-	-	0.2	0.2
24										
25	IFRS Conversion Costs	# 18509	200.8	566.2	(169.9)	396.3	-	-	597.1	399.0
26										
27	Deferred Service Line Installation Fee	# 18510	-	1,623.2	-	1,623.2	-	-	1,623.2	1,623.2
28										
29	Carbon Tax Implementation	# 18512	198.0	-	-	-	(198.0)	-	-	99.0
30										
31	Carbon Tax Cost of Service	# 18513	(335.3)	326.0	(97.8)	228.2	111.8	-	4.7	(165.3)
32										
33	Notes:									
34	* Taxes = 30% * (Gross Addiion + Amortization Other).									
35	** Amortization Other figures are pre-tax amounts.									

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UNAMORTIZED DEFERRED CHARGES AND AMORTIZATION
FOR THE YEAR ENDING DECEMBER 31, 2009
($000s)

Line No.	Particulars	Account	Forecast Balance 12/31/2008	Gross Additions	Less-Taxes *	Net Additions	Amortization Expense	Amortization Other **	Balance 12/31/2009	Mid-Year Average 2009
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1	ROE Hearing Costs - 2005	# 17985	$149.5	$0.0	$0.0	$0.0	($149.5)	$0.0	$0.0	$74.8
2										
3	Earnings Sharing Mechanism	# 17982	(9,879.0)	-	(4,233.9)	(4,233.9)	-	14,112.9	-	(4,939.5)
4										
5	NGV Compression Equip. Recovery	# 17992	249.4	-	-	-	(249.4)	-	-	124.7
6										
7	Bad Debt Allowance for Rates 14 & 14A	# 17949	78.4	21.8	(6.5)	15.3	-	-	93.7	86.1
8	Other Post Employment Benefits	# 17991/93	(34,991.9)	(4,877.0)	1,463.1	(3,413.9)	-	-	(38,405.8)	(36,698.9)
9										
10	SCP Net Mitigation Revenues	# 17912	(4,432.5)	(955.0)	286.5	(668.5)	1,078.1	-	(4,022.9)	(4,227.7)
11	SCP West to East Transmission	# 17913	(1,738.5)	-	-	-	371.2	-	(1,367.3)	(1,552.9)
12	SCP PG&E Contract Cancellation	# 17936	661.8	-	-	-	(661.7)	-	0.1	331.0
13	SCP Provincial Sales Tax Reassessment	# 18504	7,425.4	-	-	-	-	-	7,425.3	7,425.4
14										
15	CCT Assessment	# 17929	(15.9)	-	-	-	13.5	-	(2.4)	(9.2)
16										
17	Pension Variance	# 17946	311.5	-	-	-	(312.0)	-	(0.5)	155.5
18	Insurance Variance	# 17947	91.4	-	-	-	(91.4)	-	-	45.7
19										
20	BCUC Levies	# 18149	(301.6)	-	-	-	301.6	-	-	(150.8)
21	OSC Certification Compliance	# 18148	76.2	116.8	(35.0)	81.8	(76.4)	-	81.6	78.9
22										
23	2006 LCT Elimination	# 18502	14.0	-	-	-	(14.0)	-	-	7.0
24										
25	TGS O&M Variance	# 18506	232.3	170.0	(51.0)	119.0	-	-	351.3	291.8
26										
27	TGS Amalgamation	# 18503	132.0	-	-	-	-	-	132.0	132.0
28										
29	Rider 2 ROE Revenue Requirement	# 18003	-	-	-	-	-	-	-	-
30										
31	Olympics Security Costs Deferral		-	746.9	(224.1)	522.8	-	-	522.8	261.4
34										
35	Total Deferred Charges for Rate Base		($48,932.0)	$29,386.7	($12,538.4)	$16,848.3	$72.2	$14,031.2	($17,980.4)	($32,644.2)
36										
37	Notes:									
38	* Taxes = 30% * (Gross Addiion + Amortization Other).									
39	** Amortization Other figures are pre-tax amounts.									

TERASEN GAS INC.

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UNAMORTIZED DEFERRED CHARGES AND AMORTIZATION
FOR THE YEAR ENDING DECEMBER 31, 2008
($000s)

Line No.	Particulars (1)	Account (2)	Balance 12/31/2007 (3)	Gross Additions (4)	Less- Taxes * (5)	Net Additions (6)	Amortization Expense (7)	Amortization Other ** (8)	Balance 12/31/2008 (9)	Mid-Year Average 2008 (10)
1	Deferred Interest	# 17904	$18.0	($312.7)	$97.0	($215.7)	$226.0	$0.0	$28.3	$23.2
2	Deferred Interest - funding benefits via Customer Depo	# 17904A	(81.0)	62.9	(19.5)	43.4	53.2	-	15.6	(32.7)
3										
4	NGV Conversion Grants	# 17977	98.0	125.0	(38.8)	86.2	(46.7)	-	137.5	117.8
5										
6	2003 Revenue Requirement	# 17989	29.0	-	-	-	(29.2)	-	(0.2)	14.4
7	2004-2007 Revenue Requirements	# 17952	25.0	-	-	-	(25.0)	-	-	12.5
8	Future Revenue Requirements	# 18160	50.0	4.5	(1.4)	3.1	-	-	53.1	51.6
9										
10	Energy Efficency & Conservation (EEC)	# 17916	1,526.0	1,500.0	(465.0)	1,035.0	(772.0)	-	1,789.0	1,657.5
11										
12	Property Tax Deferral	# 17915	(1,020.0)	(1.1)	0.3	(0.8)	272.9	-	(747.9)	(884.0)
13										
14	M.C.R.A.	# 17926	20,551.5	(4,530.4)	1,404.4	(3,126.0)	-	-	17,425.5	18,988.5
15	C.C.R.A.	# 18137	(37,732.4)	20,124.9	(6,238.7)	13,886.2	-	-	(23,846.2)	(30,789.3)
16	C.C.R.A./M.C.R.A Interest	# 17973	(2,332.0)	327.7	(101.5)	226.2	-	-	(2,105.8)	(2,218.9)
17										
18	RSAM	# 17927	17,479.9	(13,890.4)	7,798.8	(6,091.6)	-	(11,267.0)	121.3	8,800.6
19	RSAM Interest	# 17999	515.9	(414.2)	214.6	(199.6)	-	(278.2)	38.1	277.0
20										
21	Revelstoke Propane Cost	# 27902	30.2	4.8	(1.5)	3.3	-	-	33.5	31.9
22										
23	Vehicle Lease Deferral	# 17941	359.0	-	-	-	(358.8)	-	0.2	179.6
24										
25	IFRS Conversion Costs	# 18509	-	291.0	(90.2)	200.8	-	-	200.8	100.4
26										
27	Deferred Service Line Installation Fee	# 18510	-	-	-	-	-	-	-	-
28										
29	Carbon Tax Implementation	# 18512	-	287.0	(89.0)	198.0	-	-	198.0	99.0
30										
31	Carbon Tax Cost of Service	# 18513	-	(295.0)	(40.3)	(335.3)	-	-	(335.3)	(167.7)
32										
33	Notes:									
34	* Taxes = 31% * (Gross Addiion + Amortization Other).									
35	** Amortization Other figures are pre-tax amounts.									

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UNAMORTIZED DEFERRED CHARGES AND AMORTIZATION
FOR THE YEAR ENDING DECEMBER 31, 2008
($000s)

Line No.	Particulars	Account	Balance 12/31/2007	Gross Additions	Less- Taxes *	Net Additions	Amortization Expense	Amortization Other **	Balance 12/31/2008	Mid-Year Average 2008
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1	ROE Hearing Costs - 2005	# 17985	$299.0	$0.0	$0.0	$0.0	($149.5)	$0.0	$149.5	$224.3
2										
3	Earnings Sharing Mechanism	# 17982	(10,046.7)	(14,421.8)	(77.1)	(14,498.9)	-	14,666.6	(9,879.0)	(9,962.9)
4										
5	NGV Compression Equip. Recovery	# 17992	498.0	-	-	-	(248.6)	-	249.4	373.7
6										
7	Bad Debt Allowance for Rates 14 & 14A	# 17949	61.0	25.2	(7.8)	17.4	-	-	78.4	69.7
8	Other Post Employment Benefits	# 17991/93	(25,983.0)	(6,877.0)	(2,131.9)	(9,008.9)	-	-	(34,991.9)	(30,487.5)
9										
10	SCP Net Mitigation Revenues	# 17912	(4,436.0)	(909.4)	281.9	(627.5)	631.0	-	(4,432.5)	(4,434.3)
11	SCP West to East Transmission	# 17913	(869.0)	(1,321.3)	409.6	(911.7)	42.2	-	(1,738.5)	(1,303.8)
12	SCP PG&E Contract Cancellation	# 17936	1,325.0	-	-	-	(663.2)	-	661.8	993.4
13	SCP Provincial Sales Tax Reassessment	# 18504	7,190.4	235.0	-	235.0	-	-	7,425.4	7,307.9
14										
15	CCT Assessment	# 17929	37.0	-	-	-	(52.9)	-	(15.9)	10.6
16										
17	Pension Variance	# 17946	(2,342.0)	522.0	-	522.0	2,131.5	-	311.5	(1,015.3)
18	Insurance Variance	# 17947	(138.0)	(538.7)	167.0	(371.7)	601.1	-	91.4	(23.3)
19										
20	BCUC Levies	# 18149	(277.0)	(437.6)	135.7	(301.9)	277.3	-	(301.6)	(289.3)
21	OSC Certification Compliance	# 18148	(123.0)	113.4	(35.2)	78.2	121.0	-	76.2	(23.4)
22										
23	2006 LCT Elimination	# 18502	(2,069.0)	1,049.0	-	1,049.0	1,034.0	-	14.0	(1,027.5)
24										
25	TGS O&M Variance	# 18506	115.0	170.0	(52.7)	117.3	-	-	232.3	173.7
26										
27	TGS Amalgamation	# 18503	132.0	-	-	-	-	-	132.0	132.0
28										
29	Rider 2 ROE Revenue Requirement	# 18003	-	(31.8)	-	(31.8)	31.8	-	-	-
30										
31	Olympics Security Costs Deferral		-	-	-	-	-	-	-	-
34										
35	Total Deferred Charges for Rate Base		($37,109.2)	($19,139.0)	$1,118.7	($18,020.3)	$3,076.1	$3,121.4	($48,932.0)	($43,020.6)
36										
37	Notes:									
38	* Taxes = 31% * (Gross Addiion + Amortization Other).									
39	** Amortization Other figures are pre-tax amounts.									

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WORKING CAPITAL ALLOWANCE
FOR THE YEAR ENDING DECEMBER 31, 2009
($000s)

Line No.	Particulars	2008 APPROVED	2009 Rates	2009 Revised Revenue	Change	Reference
	(1)	(2)	(3)	(4)	(5)	(6)
1	**Cash Working Capital**					
2	Cash Required for					
3	Operating Expenses	($17,756)	($22,942)	($22,683)	($4,927)	
4						
5	Customer Deposits	(3,474)	(3,474)	(3,474)	-	
6						
7	Less - Funds Available:					
8						
9	Reserve for Bad Debts	(4,545)	(4,709)	(4,709)	(164)	
10						
11	Withholdings From Employees	(2,677)	(2,961)	(2,961)	(284)	
12						
13	Subtotal	(28,452)	(34,086)	(33,827)	(5,375)	- Tab A-1, Page 6
14						
15	**Other Working Capital Items**					
16	Inventories	6,675	0	-	(6,675)	
17	Transmission Line Pack Gas	3,367	4,633	4,633	1,266	
18	Gas in Storage	126,801	134,235	134,235	7,434	
19						
20	Subtotal	136,843	138,868	138,868	2,025	- Tab A-1, Page 6
21						
22	Total	$108,391	$104,782	$105,041	($3,350)	

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DEPRECIATION AND AMORTIZATION
FOR THE YEARS ENDING DECEMBER 31, 2008 AND 2009
($000s)

Line No.	Particulars	PROJECTION 2008	FORECAST 2009	Reference
	(1)	(2)	(3)	(4)
1	Balance, Beginning	$754,566	$808,588	- Tab A-3, Page 16.4
2				
3	CIAOC Amortization Balance, Beginning	(41,089)	(46,175)	- Tab A-3, Page 8
4				
5	Gas Plant Held for Future Use			
6	Balance, Beginning	-	-	
7				
8	Utility Accumulated Depreciation			
9	Balance, Beginning	713,477	762,413	- Tab A-3, Page 9
10				
11				
12	Depreciation Provision	93,433	96,660	- Tab A-3, Page 16.4
13	Less - Gas Plant Held for Future Use	-	-	
14	Less Prior Year Adjustments	-	-	
15	Less - Amortization of Contributions in			
16	Aid of Construction	(6,478)	(6,893)	- Tab A-3, Page 8
17				
18		86,955	89,767	
19				
20	Plant Retirements	(31,936)	(28,635)	- Tab A-3, Page 16.4
21				
22	CIAOC Retirements	1,392	8,232	- Tab A-3, Page 8
23				
24	Removal Costs	(7,475)	(7,935)	
25				
26	Proceeds on Disposals	-	-	
27				
28		(38,019)	(28,338)	
29				
30	Balance, Ending	$762,413	$823,842	- Tab A-1, Page 6

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DEPRECIATION AND AMORTIZATION CONTINUITY SCHEDULE
FOR THE YEAR ENDING DECEMBER 31, 2009
($000s)

Line No.	Account	Balance 12/31/2008	Annual Depreciation Rate %	Provision 2009 (Cr.)	Adjust-ments	Retirements	Retirement Costs	Proceeds on Disposal	Accumulated 12/31/2008	Accumulated 12/31/2009
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1	**INTANGIBLE PLANT**									
2	117-00 Utility Plant Acquisition Adjustment	$0	1.00%	$0	$0	$0	$0	$0	$0	$0
3	175-00 Unamortized Conversion Expense	109	1.00%	1	-	-	-	-	287	288
4	175-00 Unamortized Conversion Expense - Squamish	777	10.00%	78	-	-	-	-	155	233
5	178-00 Organization Expense	728	1.00%	7	-	-	-	-	362	369
6	179-01 Other Deferred Charges	-	1.00%	-	-	-	-	-	-	-
7	401-00 Franchise and Consents	99	1.00%	1	-	-	-	-	49	50
8	402-00 Utility Plant Acquisition Adjustment	835	1.00%	8	-	-	-	-	140	148
9	402-00 Other Intangible Plant	-	Lease Term	-	-	-	-	-	27	27
10	TOTAL INTANGIBLE PLANT	2,548		95	-	-	-	-	1,020	1,115
11										
12	**MANUFACTURED GAS / LOCAL STORAGE**									
13	430 Manufact'd Gas - Land	31	0.00%	-	-	-	-	-	-	-
14	432 Manufact'd Gas - Struct. & Improvements	438	1.50%	7	-	-	-	-	97	104
15	433 Manufact'd Gas - Equipment	139	3.00%	4	-	-	-	-	46	50
16	434 Manufact'd Gas - Gas Holders	358	2.00%	7	-	-	-	-	166	173
17	436 Manufact'd Gas - Compressor Equipment	53	3.00%	2	-	-	-	-	23	25
18	437 Manufact'd Gas - Measuring & Regulating Equipm	309	3.00%	9	-	-	-	-	142	151
19	440/441 Land in Fee Simple and Land Rights	927	0.00%	-	-	-	-	-	1	1
20	442 Structures & Improvements	5,455	4.00%	218	-	-	-	-	2,304	2,522
21	443 Gas Holders - Storage	19,276	4.00%	771	-	-	-	-	9,333	10,104
22	446 Compressor Equipment	-	0.00%	-	-	-	-	-	-	-
23	447 Measuring & Regulating Equipment	-	0.00%	-	-	-	-	-	-	-
24	448 Purification Equipment	-	0.00%	-	-	-	-	-	-	-
25	449 Local Storage Equipment	16,734	4.00%	669	-	-	-	-	9,096	9,765
26	TOTAL MANUFACTURED GAS / LOCAL STORAC	43,720		1,687	-	-	-	-	21,208	22,895
27										
28	**TRANSMISSION PLANT**									
29	460-00 Land in Fee Simple	7,444	0.00%	-	-	-	-	-	399	399
30	461-00 Land Rights	44,822	0.00%	-	-	-	-	-	(1,434)	(1,434)
31	461-10 Land Rights - Byron Creek	-	5.00%	-	-	-	$0	$0	$16	$16
32	462-00 Compressor Structures	16,504	3.00%	495	-	-	-	-	4,936	5,431
33	463-00 Measuring Structures	4,363	3.00%	131	-	-	-	-	1,298	1,429
34	464-00 Other Structures & Improvements	4,881	3.00%	146	-	-	-	-	1,097	1,243
35	465-00 Mains	714,629	2.00%	14,293	-	(184)	-	-	177,786	191,895
36	465-10 Mains - Byron Creek	702	5.00%	35	-	-	-	-	793	828
37	466-00 Compressor Equipment	104,047	3.00%	3,121	-	-	-	-	31,870	34,991
38	467-00 Measuring & Regulating Equipment	55,761	3.00%	1,673	-	-	-	-	9,369	11,042
39	467-10 Telemetering	5,995	10.00%	600	-	-	-	-	7,021	7,621
40	467-20 Measuring & Regulating Equipment - Byron Cr	-	10.00%	-	-	-	-	-	-	-
41	468-00 Communication Structures & Equipment	3,976	10.00%	398	-	-	-	-	947	1,345
42	469-00 Other Transmission Equipment	-	5.00%	-	-	-	-	-	-	-
43	TOTAL TRANSMISSION PLANT	963,124		20,892	-	(184)	-	-	234,098	254,806

TERASEN GAS INC. Advance Materials Section A
Tab 3
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DEPRECIATION AND AMORTIZATION CONTINUITY SCHEDULE
FOR THE YEAR ENDING DECEMBER 31, 2009
($000s)

Line No.	Account (1)	Balance 12/31/2008 (2)	Annual Depreciation Rate % (3)	Provision 2009 (Cr.) (4)	Provision Adjust-ments (5)	Provision Retirements (6)	Provision Retirement Costs (7)	Provision Proceeds on Disposal (8)	Accumulated 12/31/2008 (9)	Accumulated 12/31/2009 (10)
1	**DISTRIBUTION PLANT**									
2	470 Land	$3,249	0.00%	$0	$0	$0	$0	$0	$35	$35
3	471 Land Rights	803	0.00%	-	-	-	-	-	-	-
4	471 Land Rights - Byron Creek	1	5.00%	-	-	-	-	-	3	3
5	-Frame Buildings	6,880	3.00%	206	-	-	-	-	2,340	2,546
6	-Byron Creek	2,000	5.00%	100	-	-	-	-	302	402
7	473-00 Services	624,884	2.00%	12,642	-	(3,042)	(6,435)	-	96,586	99,751
8	474-00 House Regulator & Meter Installation	177,893	3.57%	6,351	-	(516)	(600)	-	40,949	46,184
9	475-00 Mains	868,400	2.00%	17,368	-	(3,367)	(500)	-	220,402	233,903
10	-All Other	575	6.67%	38	-	-	-	-	365	403
11	477-00 Measuring & Regulating	102,781	3.00%	3,083	-	(570)	-	-	13,618	16,131
12	477-10 Telemetering	5,792	10.00%	579	-	(8)	-	-	5,944	6,515
13	477-00 Measuring & Regulating - Byron Creek	-	5.00%	-	-	-	-	-	(59)	(59)
14	478 Meters	236,886	3.57%	8,457	-	(580)	(400)	-	60,577	68,054
15	479 Other Distribution Equipment	26	4.00%	1	-	-	-	-	28	29
16		2,030,170		48,825	-	(8,083)	(7,935)	-	441,090	473,897
17										
18	**GENERAL PLANT & EQUIPMENT**									
19	480-00 Land in Fee Simple	21,027	0.00%	-	-	-	-	-	17	17
20	481-00 Land Rights	-	0.00%	-	-	-	-	-	-	-
21	482-00 Structures & Improvements	-	0.00%	-	-	-	-	-	-	-
22	- Frame Buildings	5,071	3.00%	152	-	-	-	-	(2,782)	(2,630)
23	- Masonry Buildings	74,722	1.50%	1,121	-	-	-	-	(5,466)	(4,345)
24	- Leasehold Improvement	6,051	Lease Term	605	-	-	-	-	14,795	15,400
25	483-00 Office Furniture and Equipment	-	0.00%	-	-	-	-	-	-	-
26	- Furniture & Equipment	23,950	5.00%	1,198	-	(90)	-	-	12,034	13,142
27	- Computer Hardware	34,780	20.00%	7,020	-	(8,956)	-	-	23,078	21,142
28	- Computer Software (Infrastructure)	64,799	12.50%	8,768	-	(8,983)	-	-	29,046	28,831
29	- Computer Software (Non-Infrastructure)	16,421	20.00%	3,284	-	(1,473)	-	-	16,983	18,794
30	484-00 Transportation Equipment	880	15.00%	132	-	-	-	-	3,069	3,201
31	485-00 Heavy Work Equipment	366	5.00%	18	-	-	-	-	(246)	(228)
32	486-00 Small Tools & Equipment	33,486	5.00%	1,674	-	(327)	-	-	13,074	14,421
33	487-00 Equipment on Customer's Premises	1	5.00%	-	-	-	-	-	(893)	(893)
34	- VRA Compressor Installation Costs	-	33.33%	-	-	-	-	-	692	692
35	488-00 Communications Equipment	-	5.00%	-	-	-	-	-	-	-
36	- Telephone	11,894	5.00%	595	-	(10)	-	-	3,622	4,207
37	- Radio	5,935	10.00%	594	-	(529)	-	-	4,149	4,214
38	489-00 Other General Equipment	-	5.00%	-	-	-	-	-	-	-
39	TOTAL GENERAL PLANT	299,383		25,161	-	(20,368)	-	-	111,172	115,965
40										
41	**UNCLASSIFIED PLANT**									
42	499 Plant Suspense	153	0.00%	-	-	-	-	-	-	-
43	TOTAL UNCLASSIFIED PLANT	153		-	-	-	-	-	-	-
44										
45	TOTAL CAPITAL	$3,339,098		$96,660	$0	($28,635)	($7,935)	$0	$808,588	$868,678

TERASEN GAS INC. Advance Materials Section A
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DEPRECIATION AND AMORTIZATION CONTINUITY SCHEDULE
FOR THE YEAR ENDING DECEMBER 31, 2008
($000s)

Line No.	Account	Balance 12/31/2007	Annual Depreciation Rate %	Provision 2008 (Cr.)	Adjust-ments	Retirements	Retirement Costs	Proceeds on Disposal	Accumulated 12/31/2007	12/31/2008
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1	**INTANGIBLE PLANT**									
2	117-00 Utility Plant Acquisition Adjustment	$0	1.00%	$0	$0	$0	$0	$0	$0	$0
3	175-00 Unamortized Conversion Expense	109	1.00%	1	-	-	-	-	286	287
4	175-00 Unamortized Conversion Expense - Squamish	777	10.00%	78	-	-	-	-	78	156
5	178-00 Organization Expense	728	1.00%	7	-	-	-	-	355	362
6	179-01 Other Deferred Charges	-	1.00%	-	-	-	-	-	-	-
7	401-00 Franchise and Consents	99	1.00%	1	-	-	-	-	48	49
8	402-00 Utility Plant Acquisition Adjustment	835	1.00%	8	-	-	-	-	132	140
9	402-00 Other Intangible Plant	-	Lease Term	-	-	-	-	-	27	27
10	TOTAL INTANGIBLE PLANT	2,548		95	-	-	-	-	926	1,021
11										
12	**MANUFACTURED GAS / LOCAL STORAGE**									
13	430 Manufact'd Gas - Land	31	0.00%	-	-	-	-	-	-	-
14	432 Manufact'd Gas - Struct. & Improvements	438	1.50%	7	-	-	-	-	90	97
15	433 Manufact'd Gas - Equipment	139	3.00%	4	-	-	-	-	41	45
16	434 Manufact'd Gas - Gas Holders	358	2.00%	7	-	-	-	-	158	165
17	436 Manufact'd Gas - Compressor Equipment	53	3.00%	2	-	-	-	-	21	23
18	437 Manufact'd Gas - Measuring & Regulating Equipm	309	3.00%	9	-	-	-	-	133	142
19	440/441 Land in Fee Simple and Land Rights	927	0.00%	-	-	-	-	-	1	1
20	442 Structures & Improvements	5,455	4.00%	218	-	-	-	-	2,085	2,303
21	443 Gas Holders - Storage	18,622	4.00%	745	-	-	-	-	8,588	9,333
22	446 Compressor Equipment	-	0.00%	-	-	-	-	-	-	-
23	447 Measuring & Regulating Equipment	-	0.00%	-	-	-	-	-	-	-
24	448 Purification Equipment	-	0.00%	-	-	-	-	-	-	-
25	449 Local Storage Equipment	16,734	4.00%	669	-	-	-	-	8,427	9,096
26	TOTAL MANUFACTURED GAS / LOCAL STORAC	43,066		1,661	-	-	-	-	19,544	21,205
27										
28	**TRANSMISSION PLANT**									
29	460-00 Land in Fee Simple	7,444	0.00%	-	-	-	-	-	399	399
30	461-00 Land Rights	43,484	0.00%	-	-	-	-	-	(1,434)	(1,434)
31	461-10 Land Rights - Byron Creek	-	5.00%	-	-	-	-	-	16	16
32	462-00 Compressor Structures	16,052	3.00%	482	-	-	-	-	4,455	4,937
33	463-00 Measuring Structures	4,363	3.00%	131	-	-	-	-	1,167	1,298
34	464-00 Other Structures & Improvements	4,881	3.00%	146	-	-	-	-	951	1,097
35	465-00 Mains	710,543	2.00%	14,224	-	(180)	-	-	163,741	177,785
36	465-10 Mains - Byron Creek	702	5.00%	35	-	-	-	-	758	793
37	466-00 Compressor Equipment	103,993	3.00%	3,120	-	-	-	-	28,750	31,870
38	467-00 Measuring & Regulating Equipment	49,799	3.00%	1,494	-	-	-	-	7,875	9,369
39	467-10 Telemetering	5,995	10.00%	600	-	-	-	-	6,422	7,022
40	467-20 Measuring & Regulating Equipment - Byron Cr	-	10.00%	-	-	-	-	-	-	-
41	468-00 Communication Structures & Equipment	3,194	10.00%	319	-	-	-	-	628	947
42	469-00 Other Transmission Equipment	-	5.00%	-	-	-	-	-	-	-
43	TOTAL TRANSMISSION PLANT	950,450		20,551	-	(180)	-	-	213,728	234,099

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DEPRECIATION AND AMORTIZATION CONTINUITY SCHEDULE
FOR THE YEAR ENDING DECEMBER 31, 2008
($000s)

Line No.	Account	Balance 12/31/2007	Annual Depreciation Rate %	Provision 2008 (Cr.)	Adjust-ments	Retirements	Retirement Costs	Proceeds on Disposal	Accumulated 12/31/2007	Accumulated 12/31/2008
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1	**DISTRIBUTION PLANT**									
2	470 Land	$3,249	0.00%	$0	$0	$0	$0	$0	$35	$35
3	471 Land Rights	803	0.00%	-	-	-	-	-	-	-
4	471 Land Rights - Byron Creek	1	5.00%	-	-	-	-	-	3	3
5	-Frame Buildings	6,461	3.00%	194	-	-	-	-	2,146	2,340
6	-Byron Creek	2,000	5.00%	100	-	-	-	-	202	302
7	473-00 Services	607,034	2.00%	12,141	-	(3,150)	(5,975)	-	93,570	96,586
8	474-00 House Regulator & Meter Installation	168,226	3.57%	6,006	-	(509)	(600)	-	36,052	40,949
9	475-00 Mains	830,675	2.00%	16,765	-	(3,351)	(500)	-	207,488	220,402
10	-All Other	575	6.67%	38	-	-	-	-	327	365
11	477-00 Measuring & Regulating	92,234	3.00%	2,767	-	(555)	-	-	11,406	13,618
12	477-10 Telemetering	5,638	10.00%	564	-	(8)	-	-	5,388	5,944
13	477-00 Measuring & Regulating - Byron Creek	-	5.00%	-	-	-	-	-	(59)	(59)
14	478 Meters	225,961	3.57%	8,067	-	(575)	(400)	-	53,485	60,577
15	479 Other Distribution Equipment	26	4.00%	1	-	-	-	-	27	28
16		1,942,883		46,643	-	(8,148)	(7,475)	-	410,070	441,090
17										
18	**GENERAL PLANT & EQUIPMENT**									
19	480-00 Land in Fee Simple	21,005	0.00%	-	-	-	-	-	17	17
20	481-00 Land Rights	-	0.00%	-	-	-	-	-	-	-
21	482-00 Structures & Improvements	-	0.00%	-	-	-	-	-	-	-
22	- Frame Buildings	5,071	3.00%	152	-	-	-	-	(2,934)	(2,782)
23	- Masonry Buildings	74,722	1.50%	1,121	-	-	-	-	(6,587)	(5,466)
24	- Leasehold Improvement	5,386	Lease Term	539	-	-	-	-	14,256	14,795
25	483-00 Office Furniture and Equipment	-	0.00%	-	-	-	-	-	-	-
26	- Furniture & Equipment	24,706	5.00%	1,235	-	(1,264)	-	-	12,064	12,035
27	- Computer Hardware	28,600	20.00%	5,720	-	(755)	-	-	18,113	23,078
28	- Computer Software (Infrastructure)	72,590	12.50%	9,074	-	(14,215)	-	-	34,187	29,046
29	- Computer Software (Non-Infrastructure)	18,385	20.00%	3,677	-	(4,564)	-	-	17,870	16,983
30	484-00 Transportation Equipment	829	15.00%	124	-	-	-	-	2,944	3,068
31	485-00 Heavy Work Equipment	366	5.00%	18	-	-	-	-	(264)	(246)
32	486-00 Small Tools & Equipment	33,510	5.00%	1,676	-	(2,346)	-	-	13,745	13,075
33	487-00 Equipment on Customer's Premises	1	5.00%	-	-	-	-	-	(893)	(893)
34	- VRA Compressor Installation Costs	-	33.33%	-	-	-	-	-	692	692
35	488-00 Communications Equipment	-	5.00%	-	-	-	-	-	-	-
36	- Telephone	11,360	5.00%	568	-	(45)	-	-	3,099	3,622
37	- Radio	5,787	10.00%	579	-	(419)	-	-	3,989	4,149
38	489-00 Other General Equipment	-	5.00%	-	-	-	-	-	-	-
39	TOTAL GENERAL PLANT	302,318		24,483	-	(23,608)	-	-	110,298	111,173
40										
41	**UNCLASSIFIED PLANT**									
42	499 Plant Suspense	153	0.00%	-	-	-	-	-	-	-
43	TOTAL UNCLASSIFIED PLANT	153		-	-	-	-	-	-	-
44										
45	TOTAL CAPITAL	$3,241,418		$93,433	$0	($31,936)	($7,475)	$0	$754,566	$808,588

2009 GAS SALES AND TRANSPORTATION VOLUMES

This section addresses the forecast of gas sales and transportation volumes for 2009. Included is a review of the energy forecast methodology as well as factors influencing customer additions and use per customer. An outline of the residential, commercial and industrial margins and revenues over the forecast period is also provided.

The yearly projections and forecasts, including customer accounts and the use per customer used to derive revenues for 2009, reflect the best information available at the time of the Annual Review.

The forecast of industrial accounts and associated volumes are updated to reflect the latest industrial survey conducted during the summer of 2008. Similarly, revenue and margin forecasts reflect the most recently approved rates.

1. FORECAST METHODOLOGY

Consistent with previous years, the forecasting process is comprised of three main components:

- Customer additions forecast;
- Average use per customer forecast; and,
- Industrial forecast.

The residential and commercial energy forecast consisting of Rate Classes 1, 2, 3 and 23 is driven by the respective account and use per customer forecasts, while the industrial energy forecast incorporates Rate Classes 7, 22, 25 and 27 and is based mainly on customer survey data. Rate Classes 4, 5 & 6 customer account and demand growth is modelled from market information and historical trends.

The customer additions forecast reflects prevailing macroeconomic circumstances affecting residential and commercial customers. The forecast for industrial customers assumes no net change in the number of customers over the forecast period except where specific knowledge of a change in service level has been received by Terasen Gas.

Consistent with the methodology used in prior years, the average use per customer is estimated for Rate Classes 1, 2, 3 and 23 and is multiplied by the corresponding forecast of customers in each respective rate class to derive energy consumption. The large volume industrial and transportation customer forecast continues to rely on historical data, sector analyses and customer-specific survey results.

Current rates are applied against the energy forecast to calculate the revenue forecast. The underlying assumptions and components of that forecast are discussed below.

2. UNDERLYING ASSUMPTIONS

The following assumptions were made about external influences when developing this forecast:

- Economic growth slows for the remainder of 2008 and into 2009;
- Provincial population growth continues at levels recently observed;
- Energy efficiency will continue to improve driven by appliance renewal and continuing conservation efforts; and,
- Industrial and transportation sectors will continue to be affected by the slowdown of the U.S. economy.

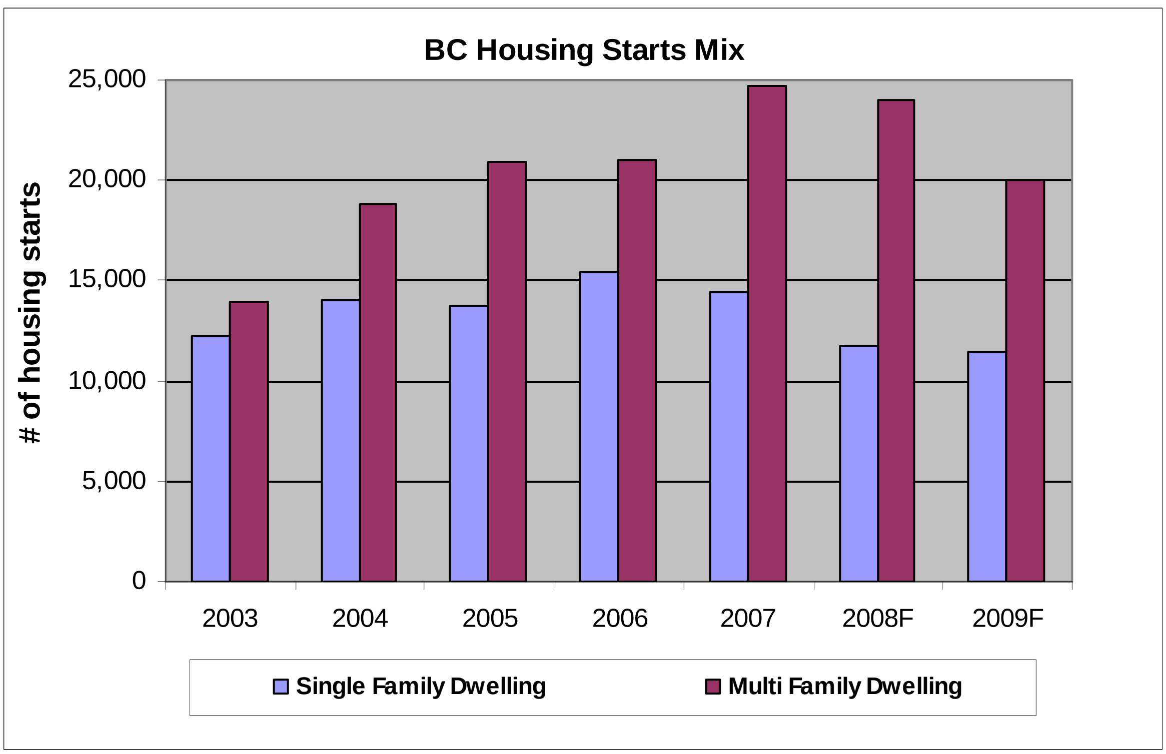
3. ECONOMIC OUTLOOK FOR BRITISH COLUMBIA

The consensus among leading economists[1] is that the province will experience a downshift in economic growth for the remainder of 2008 and into 2009, with modest recovery expected in late 2009. The B.C. Ministry of Finance is projecting economic growth at 2.4% in 2008 and 2.8% in 2009 for the province. The decline in economic growth is primarily attributed to the slowdown of the U.S. economy.

[1] **BMO Financial Group** – Provincial Monitor, summer 2008; **RBC Financial Group** - Provincial Outlook, July 2008; **TD Bank Financial Group** – TD Quarterly Economic Forecast, June 2008; **Credit Union Central of BC** – Economic Analysis of British Columbia, August 2008

Housing Market

Construction on approximately 36,000 homes will begin in 2008 and just under 32,000 homes in 2009. Single-family dwelling starts are expected to reach 11,800 (an 18.5% decline from 2007) in 2008 and decline slightly to 11,500 in 2009. Single-detached home starts are expected to decline as builders respond to changing market conditions. High building material and land costs, and declining affordability will reinforce the shift to denser housing type. Multi-family dwelling starts are forecast at 24,000 units in 2008 (a 2.9% decline from 2007) and 20,000 in 2009. Apartment condominium starts will continue to dominate this category, again reflecting rising land costs. British Columbia will continue to see a net migration to the province, which is expected to add close to 100,000 people to the provincial population over the next two years, which will in turn boost housing demand. Despite the growing population and job numbers in British Columbia, a well-supplied resale home market will lower new construction.



2007 Actual (CMHC - BC Housing Statistics)

2008f and 2009f (CMHC Housing Market Outlook - Canada - Third Quarter 2008)

Customer Additions Forecast

The forecast of residential account additions is based on the provincial forecast of household formations at the community level. The CMHC's forecasts, along with the latest economic analyses from the B.C. Government, major banks and other organizations are then reviewed for consistency with the overall trend in household formations. The forecast of customer additions is applied to residential and commercial rate classes while no growth is assumed for industrial customers.

The table below provides a summary of the residential, commercial and industrial & transportation customer additions for the last 3 years and a projection for the years 2008 forecast for 2009. Yearly information on housing starts is also provided.

TGI Customer Growth[1]

	2005 Actuals	**2006** Actuals	**2007** Actuals	**2008** Projected	**2009** Forecast
Residential[2]	11,427	9,595	9,277	8,439	8,012
Commercial[3]	1,002	656	694	704	676
Industrial & Transportation[4]	(9)	(70)	(56)	(7)	(1)
Total	**12,420**	**10,181**	**9,915**	**9,136**	**8,687**
Year-Ending Customers	799,378	812,683[6]	822,598	831,734	840,421
Housing Starts[5]	34,667	36,443	39,195	35,800	31,500

Notes

1. Includes Lower Mainland, Inland, Columbia and Revelstoke service regions only.
2. Rate 1
3. Rates 2, 3 & 23
4. Rates 4, 5, 6, 7, 22, 25 & 27
5. Source: CMHC
6. Includes 3,124 additional customers due to amalgamation of Squamish customers

The 2008 projected customer additions have been revised downward from the 11,797 forecast last year to 9,136. The revision was made after experiencing significantly lower than expected customer additions in 2007 (9,915 actual additions versus 13,129 projected), and observing a continuation of this trend into 2008. For 2009, a total of 8,687 customer additions are forecast.

Although the variance between expected and actual customer additions is still under investigation, initial results indicate the issue is with regards to "customer turnover". Customer turnover represents the difference between the number of meters either locked off (due to the customer falling into arrears) or being removed from the system (due to a premise becoming vacant) in a particular year, and those that return to the system in that same year. The net customer turnover is indicated by the difference between the number of gross customer additions and net customer additions. In 2007, Terasen Gas observed a significant increase in customer turnover, but since only six months of actual customer additions were available to observe, no adjustment to the forecast was made. This year, with the trend being observed for over a year and a half, an adjustment to the forecast has been made. Gross customer additions continue to occur at or above projected values, and as mentioned above Terasen Gas is still investigating the cause of this issue.

4. USE PER CUSTOMER FORECAST

Individual use per customer projections are developed for each service area and rate class by considering the following factors:

- Recent historical normalized use per account;
- Efficiency improvements - appliance and insulation upgrades;
- Trends in the market; and,
- Customer migration between rate classes.

The downward pressure residential use rates have experienced for several years now is expected to continue. The decline in use rates is attributed to the retrofit to higher efficiency furnaces, a shift in the housing mix toward more multi-family dwellings, and a slowing economy. The recently introduced B.C carbon tax, as well as policies developed in response to the energy savings targets outlined in the B.C. Energy Plan, are also expected to contribute towards declining use rates. Use rates for both residential and commercial customers, based on year-to-date results, are projected to decline in 2008. For 2009, residential use rates are forecast to again decline by approximately 1%, while commercial use rates are forecast to change at the average rate experienced over the past three years.

A summary of historic and forecast use per customer rates are set out below and have been used in the preparation of the 2009 forecast.

Historic and Forecast Usage - Rates 1, 2, 3 & 23 (GJ)

	Normal 2005	Normal 2006	Normal 2007	Projected 2008	Forecast 2009
Rate 1	97.4	96.8	96.0	92.0	91.1
Rate 2	306	314	317	307	303
Rate 3	3,388	3,314	3,426	3,084	2,976
Rate 23	4,714	4,686	4,778	4,486	4,391

5. ENERGY FORECAST

a. Residential and Commercial

The residential and commercial energy forecast is calculated by multiplying the use per customer rate by the total number of customers. Compared with the projection for 2008, the total residential energy consumption is expected to decline from 74.7 PJs to 68.6 PJs in 2009. Commercial consumption is forecast to decline from 50.6 PJs to 43.0 PJs in 2009. Lower projected consumption for 2009 - with respect to 2008 - is caused in part by the effect of colder than normal weather experienced over the first six months of this year, but also attributed to the factors discussed in section 4. The forecast for each year is provided in the summary table at the end of this section.

b. Firm Sales and Industrial

As with previous years, the primary source of information for the industrial energy forecast was the industrial survey which was conducted over the summer of 2008. Surveys were faxed to each customer in Rate Classes 7, 22, 25 and 27. Customers were asked to what extent they expected their firm's natural gas consumption to change from the previous year and to estimate their consumption over the forecast period. The industrial energy forecast was then updated to include these demand estimates and other pertinent feedback.

A total of 304 surveys were completed, representing a response rate of 81% (based on 2007 energy consumption) and 41% (based on the number of accounts). Surveys were gathered from customers across every service region, rate class and industry.

Rate Classes 4, 5 & 6 forecasted volumes are estimated based on the most recent 12 months (July 2007 – June 2008) of metered consumption data. Where appropriate, the forecast consumption for Rate Class 5 is adjusted to reflect a normal weather year.

Total firm sales and industrial energy consumption (excluding Burrard Thermal and TGVI) is expected to decrease from 55.8 PJs in 2008 to 52.2 PJs in 2009. The continued slowdown of the U.S. economy has resulted in significant curtailment in production and in some cases the shutdown of operations in the forestry sector.

The following table sets out the energy forecast by residential, commercial, firm sales and industrial customers.

Historic and Forecast Energy (PJ)

	Normal 2005	Normal 2006	Normal 2007	Projected 2008	Forecast 2009
Residential[1]	69.3	70.0	70.6	74.7	68.6
Commercial[2]	43.9	44.1	45.5	50.6	43.0
Firm Sales[3]	4.7	4.1	3.8	3.5	3.5
Industrial[4]	58.6	54.2	56.3	55.8	52.2
Total	**176.5**	**172.4**	**176.2**	**184.7**	**167.3**

Notes
1. Rate 1
2. Rates 2, 3 & 23
3. Rates 4, 5 & 6
4. Rates 7, 22, 25 & 27 (does not include Burrard Thermal & TGVI)

6. REVENUE FORECAST

A revenue forecast for each customer rate class is developed from the total energy forecasts and the applicable rates. The revenue forecast below does not include Burrard Thermal and TGVI.

The table below summarizes historical and forecast revenues for 2005 to 2009 by customer category.

Historic and Forecast Revenue ($ million)

	Normal 2005	Normal 2006	Normal 2007	Projected 2008	Forecast 2009
Residential[1]	864.5	931.2	878.2	1,033.5	1,037.8
Commercial[2]	446.9	478.4	468.1	579.7	523.4
Firm Sales[3]	46.7	44.5	34.9	40.1	44.2
Industrial[4]	49.6	50.7	40.9	47.7	45.7
Total	**1,407.7**	**1,504.8**	**1,422.1**	**1,701.0**	**1,651.1**

Notes
1. Rate 1
2. Rates 2, 3 & 23
3. Rates 4, 5 & 6
4. Rates 7, 22, 25 & 27 (does not include Burrard Thermal & TGVI)

7. MARGIN FORECAST

Total margin is expected to decline significantly from the value projected for 2008, due to decreasing volumes in the residential, commercial and industrial sectors. Also, the 2008 projection incorporates 6 months of actual data during which the weather was colder than normal. The table below sets out the forecast for residential, commercial, firm sales and industrial customers.

Historic and Forecast Margin ($ million)

	Normal 2005	Normal 2006	Normal 2007	Projected 2008	Forecast 2009
Residential[1]	277.0	292.2	288.5	305.7	285.8
Commercial[2]	120.4	126.4	127.0	139.7	122.5
Firm Sales[3]	9.4	8.3	4.9	7.1	7.2
Industrial[4]	48.5	49.0	39.3	45.9	44.0
Total	**455.3**	**475.9**	**459.7**	**498.4**	**459.5**

Notes
1. Rate 1
2. Rates 2, 3 & 23
3. Rates 4, 5 & 6
4. Rates 7, 22, 25 & 27 (does not include Burrard Thermal & TGVI)

8. SOUTHERN CROSSING PIPELINE (SCP) THIRD PARTY REVENUES

For 2009, SCP Third Party firm revenues are forecasted to be $11.1 million which is an increase of $43,341 from 2008. The revenue forecast for SCP is detailed in the table below.

2009 SCP Revenues

Northwest Natural Gas Co.	$	7,297,102
PG&E Termination	$	(711,667)
MCRA	$	3,600,000
Motor Fuel Tax	$	(50,000)
Net Mitigation	$	1,000,000
Total SCP Revenues	**$**	**11,135,435**

Debits from the Midstream Cost Reconciliation Account (MCRA) are expected to continue until November 1, 2010. PG&E Termination fees to PG&E are planned to decrease in 2010 to $145,000 per year and cease at the end of 2018. Net mitigation revenues continue to be forecasted at $1 million per year.

9. MISCELLANEOUS REVENUE

Revenue from service work remains at $85 for customer additions and $25 for account transfers. Late Payment Charges are calculated using the O&M formula methodology as set out in the 2004–2007 Negotiated Settlement document. Annual NSF cheques are estimated at approximately 0.5% of the beginning of year's account base at a rate of $20 per cheque.

Other miscellaneous revenue is estimated at approximately $68,000 comprising of Non-Regulated Businesses (NRB) recoveries.

10. BURRARD THERMAL REVENUE

Various Burrard Thermal agreements, including the Bypass Transportation Agreement, are forecasted to provide $10.0 million in revenues in 2009. The transportation charge is fixed and independent of energy consumption.

11. TERASEN GAS (VANCOUVER ISLAND) INC. REVENUE

Revenue from wheeling demand charges and odorant cost recovery is approximately $3.4 million for 2009.

12. FORECAST RISKS

The slowdown in the Canadian economy is expected to show signs of recovery in the latter half of 2009. Although B.C. has been performing above the national average, there are external factors which could impact the province and have an effect on the forecast. These risks include but are not limited to:

- Extended recession in the U.S. which results in a continued or greater slowdown in the Canadian and B.C. economies;
- Possibility of increase in interest rates leading to a sharper or prolonged slowdown in new home construction; and,
- Continued strength of the Canadian dollar against the U.S. currency, which in turn impacts the competitiveness of exports from B.C. to the U.S.; and,
- Natural gas price increases impacting its competitive position.

13. SUMMARY

This Gas Sales and Transportation Volumes forecast reflects the best information currently available and incorporates the following:

- Revenues adjusted to reflect current rates approved for 2008;
- Customer counts and use per customer rates adjusted to reflect actual results to June 2008;
- Industrial demand and revenues adjusted to reflect current agreements.

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GAS SALES AND TRANSPORTATION VOLUMES
FOR THE YEAR ENDING DECEMBER 31, 2009

Line No.	Particulars	2008 APPROVED	2009 Terajoules Core and Non-Core	Bypass and Special Rates	Total	Change	Reference
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	**SALES**						
2	Schedule 1 - Residential	73,750.1	68,555.9	0.0	68,555.9	(5,194.2)	
3	Schedule 2 - Small Commercial	23,223.2	22,884.1		22,884.1	(339.1)	
4	Schedule 3 - Large Commercial	15,617.2	14,015.6		14,015.6	(1,601.6)	
5							
6	Schedules 1, 2 and 3	112,590.5	105,455.6	0.0	105,455.6	(7,134.9)	
7							
8	Schedule 4 - Seasonal	161.3	214.4		214.4	53.1	
9	Schedule 5 - General Firm	3,805.0	3,184.4		3,184.4	(620.6)	
10							
11	Industrials						
12	Schedule 7 - Interruptible	53.4	13.5		13.5	(39.9)	
13							
14		53.4	13.5	0.0	13.5	(39.9)	
15							
16	Schedule 6 - N G V Fuel - Stations	166.2	100.3		100.3	(65.9)	
17							
18	Total Sales - TGI	116,776.4	108,968.2	0.0	108,968.2	(7,808.2)	- Tab 1, Page 7
19							
20	**TRANSPORTATION SERVICE**						
21	Schedule 22 - Firm Service	21,089.3	7,984.5	10,403.8	18,388.3	(2,701.0)	
22	- Interruptible Service	13,542.1	12,199.4	0.0	12,199.4	(1,342.7)	
23	Byron Creek (aka Fording Coal Mountain)	119.4		216.4	216.4	97.0	
24	Burrard Thermal - Firm	1,073.7		1,730.4	1,730.4	656.7	
25	TGVI - Firm	32,385.9		32,408.7	32,408.7	22.8	
26	Schedule 23 - Large Commercial	5,672.4	6,130.9		6,130.9	458.5	
27	Schedule 25 - Firm Service	15,947.9	13,523.3	921.8	14,445.1	(1,502.8)	
28	Schedule 27 - Interruptible Service	5,566.2	5,197.5		5,197.5	(368.7)	
24							
25	Total Transportation Service	95,396.9	45,035.6	45,681.1	90,716.7	(4,680.2)	- Tab 1, Page 7
26							
27	**TOTAL SALES AND TRANSPORTATION SERVICES**	212,173.3	154,003.8	45,681.1	199,684.9	(12,488.4)	

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REVENUE
FOR THE YEAR ENDING DECEMBER 31, 2009
($000s)

Line No.	Particulars	2008 APPROVED	2009 Gas Sales Revenue At Existing Rates: Core and Non-Core	Bypass and Special Rates	Total	Change	Reference
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	**Core and Non-Core Sales**						
2	Schedule 1 - Residential	$932,996	$1,037,780	$0	$1,037,780	$104,784	
3	Schedule 2 - Small Commercial	290,331	322,631		322,631	32,300	
4	Schedule 3 - Large Commercial	171,601	185,380		185,380	13,779	
5	Schedules 1, 2 and 3	1,394,928	1,545,791	-	1,545,791	150,863	
6							
7	Schedule 4 - Seasonal	1,541	2,686	-	2,686	1,145	
8	Schedule 5 - General Firm	35,174	40,194		40,194	5,020	
9		36,715	42,880	-	42,880	6,165	
10	Industrials						
11	Interruptible - Schedule 7	195	174	-	174	(21)	
12							
13		195	174	-	174	(21)	
14							
15	N G V Fuel - Stations - Schedule 6	1,125	1,365		1,365	240	
16							
17	Total NGV	1,125	1,365	-	1,365	240	
18							
19	Total Core and Non-Core Sales	1,432,963	1,590,210	-	1,590,210	157,247	- Tab A-1, Page 7
20							
21	Core and Non-Core Transportation Service						
22	Schedule 22 - Firm Service	9,071	4,869	1,267	6,136	(2,935)	
23	- Interruptible Service	7,031	9,464	-	9,464	2,433	
24	Byron Creek (aka Fording Coal Mountain)	46		46	46	-	
25	Burrard Thermal - Firm	9,950		9,965	9,965	15	
26	TGVI - Firm	-		-	-	-	
27	Schedule 23 - Large Commercial	16,168	15,430	-	15,430	(738)	
28	Schedule 25 - Firm Service	23,590	23,268	773	24,041	451	
29	Schedule 27 - Interruptible Service	5,881	5,869	-	5,869	(12)	
30	Total Core and Non-Core T-Service	71,737	58,900	12,051	70,951	(786)	- Tab A-1, Page 7
31							
32	TOTAL SALES AND TRANSPORTATION SERVICE	$1,504,700	$1,649,110	$12,051	$1,661,161	$156,461	

TERASEN GAS INC.

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COST OF GAS BY RATE SCHEDULE - Summary by Service Area (Non-Bypass)
FOR THE YEAR ENDING DECEMBER 31, 2009

		Lower Mainland			Inland Including Revelstoke			Columbia			Total
Line No.	Particulars	Energy TJ	Unit Cost $/GJ	Cost of Gas ($000s)	Energy TJ	Unit Cost $/GJ	Cost of Gas ($000s)	Energy TJ	Unit Cost $/GJ	Cost of Gas ($000s)	Cost of Gas ($000s)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1	**Non-Bypass CORE AND NON-CORE**										
2	Core and Non-Core Sales										
3	Schedule 1 - Residential	51,139.9	$10.967	$560,849	15,755.2	$10.971	$172,847	1,660.8	$10.989	$18,250	$751,946
4	Schedule 2 - Small Commercial	16,725.7	10.940	182,977	5,481.2	10.882	59,648	677.2	11.004	7,452	250,077
5	Schedule 3 - Large Commercial	11,745.4	10.742	126,163	2,023.7	10.763	21,782	246.5	10.864	2,678	150,623
6	Schedules 1, 2 and 3	79,611.0		869,989	23,260.1		254,277	2,584.5		28,380	1,152,646
7											
8	Schedule 4 - Seasonal	74.8	10.602	793	139.6	10.595	1,479	-	-	-	2,272
9	Schedule 5 - General Firm	2,688.0	10.603	28,501	455.9	10.597	4,831	40.5	10.667	432	33,764
10											
11	Industrials										
12	Interruptible - Schedule 7	9.1	10.440	95	4.4	10.682	47	-	-	-	142
13											-
14	Total Industrials	9.1		95	4.4		47	-		-	142
15											
16	N G V Fuel - Stations - Schedule 6	88.3	10.272	907	12.0	10.083	121	-	-	-	1,028
17											-
18	Total NGV	88.3		907	12.0		121	-		-	1,028
19											
20	Total Core and Non-Core Sales	82,471.2		900,285	23,872.0		260,755	2,625.0		28,812	1,189,852
21											
22	Core and Non-Core Transportation Service										
23	Schedule 22 - Firm Service	-	-	-	5,697.6	0.025	143	2,286.9	0.098	223	366
24	- Interruptible Service	11,927.3	0.027	317	242.2	1.007	244	29.9	-	-	561
25	Schedule 23 - Large Commercial	4,911.6	0.032	158	1,158.6	0.024	28	60.7	0.099	6	192
26	Schedule 25 - Firm Service	9,661.9	0.032	310	3,578.2	0.024	86	283.2	0.095	27	423
27	Schedule 27 - Interruptible Service	4,547.8	0.032	146	649.7	0.025	16	-	-	-	162
28	Total Core and Non-Core T-Service	31,048.6		931	11,326.3		517	2,660.7		256	1,704
29	**Total Non-Bypass Sales and Transportation Service**										
30	Cost of Gas Sold	113,519.8		$901,216	35,198.3		$261,272	5,285.7		$29,068	$1,191,556

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COST OF GAS BY RATE SCHEDULE - Summary by Service Area (Bypass)
FOR THE YEAR ENDING DECEMBER 31, 2009

		Lower Mainland			Inland Including Revelstoke			Columbia			Total
Line No.	Particulars	Energy TJ	Unit Cost $/GJ	Cost of Gas ($000s)	Energy TJ	Unit Cost $/GJ	Cost of Gas ($000s)	Energy TJ	Unit Cost $/GJ	Cost of Gas ($000s)	Cost of Gas ($000s)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1	**BYPASS AND SPECIAL RATES**										
2	Bypass and Special Rates Transportation Service										
3	Schedule 22 - Firm Service	-	-	66	10,121.6	-	-	282.2	0.053	15	81
4	- Interruptible Service	-	-	-	-	-	-	-	-	-	-
5	Byron Creek (aka Fording Coal Mountain)	-	-	-	-	-	-	216.4	0.088	19	19
6	Burrard Thermal - Firm	1,730.4	0.020	35	-	-	-	-	-	-	35
7	TGVI - Firm	32,408.7	0.020	651	-	-	-	-	-	-	651
8	Schedule 23 - Large Commercial				-	-	-				-
9	Schedule 25 - Firm Service	-	-	-	921.8	0.024	22	-	-	-	22
10	Schedule 27 - Interruptible Service				-	-	-				-
11	Total Bypass and Spec. Rates T-Svc	34,139.1		752	11,043.4		22	498.6		34	808
12											
13											
14	**Total Bypass and Special Rates Sales and Transportation Service**										
15	Cost of Gas Sold	34,139.1		752	11,043.4		22	498.6		34	808
16											
17	**Total Non-Bypass and Bypass Sales and Transportation Service**										
18	Cost of Gas Sold	147,658.9		$901,968	46,241.7		$261,294	5,784.3		$29,102	$1,192,364

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REVENUE UNDER PROPOSED 2006 RATES AND REVISED RATES (Non-Bypass)
FOR THE YEAR ENDING DECEMBER 31, 2009
($000s)

Line No.	Particulars	Terajoules	Revenue -- At Existing Rates -- Average $/GJ	Revenue ($000s)	Gross Margin -- At Existing Rates -- Average $/GJ	Margin ($000s)	Increase / (Decrease) 7.94% $/GJ	of Margin Revenue ($000s)	Average Number of Customers	Revenue ---- Revised Rates ---- Average $/GJ	Revenue ($000s)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1	**NON-BYPASS**										
2	Core and Non-Core Sales										
3	Schedule 1 - Residential	68,555.9	$15.138	$1,037,780	$4.169	$285,834	$0.331	$22,695	752,424	$15.469	$1,060,475
4	Schedule 2 - Small Commercial	22,884.1	14.098	322,631	3.170	72,554	0.252	5,762	75,324	14.350	328,393
5	Schedule 3 - Large Commercial	14,015.6	13.227	185,380	2.480	34,757	0.197	2,759	4,709	13.424	188,139
6	Total Schedules 1 , 2 and 3	105,455.6		1,545,791		393,145		31,216	832,458		1,577,007
7											
8	Schedule 4 - Seasonal Service	214.4	12.528	2,686	1.931	414	0.154	33	21	12.682	2,719
9	Schedule 5 - General Firm Service	3,184.4	12.622	40,194	2.019	6,430	0.160	511	283	12.782	40,705
10											
11	Industrials										
12	Schedule 7 - Interruptible	13.5	12.889	174	2.370	32	0.148	2	2	13.037	176
13											
14	Total Industrials	13.5		174		32		2	2		176
15											
16	Schedule 6 - N G V Fuel - Stations	100.3	13.609	1,365	3.360	337	0.269	27	32	13.878	1,392
17											
18	Total Industrials	100.3		1,365		337		27	32		1,392
19											
20	Total Core and Non-Core Sales	108,968.2		1,590,210		400,358		31,789	832,796		1,621,999
21											
22	Core and Non-Core Transportation Service										
23	Schedule 22 - Firm Service	7,984.5	0.610	4,869	0.564	4,503	0.045	358	13	0.655	5,227
24	- Interruptible Service	12,199.4	0.776	9,464	0.730	8,903	0.058	708	23	0.834	10,172
25	Schedule 23 - Large Commercial	6,130.9	2.517	15,430	2.485	15,238	0.198	1,212	1,383	2.715	16,642
26	Schedule 25 - Firm Service	13,523.3	1.721	23,268	1.689	22,845	0.134	1,815	583	1.855	25,083
27	Schedule 27 - Interruptible Service	5,197.5	1.129	5,869	1.098	5,707	0.087	454	98	1.216	6,323
28											
29	Total Core and Non-Core T-Service	45,035.6		58,900		57,196		4,547	2,100		63,447
30											
31	Total Captive Sales & Transportation Service	154,003.8		$1,649,110		$457,554		$36,336	834,896		$1,685,446

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REVENUE UNDER PROPOSED 2006 RATES AND REVISED RATES (Bypass)
FOR THE YEAR ENDING DECEMBER 31, 2009
($000s)

			Revenue -- At Existing Rates --		Gross Margin -- At Existing Rates --		Increase / (Decrease) 7.94% of Margin			Revenue ---- Revised Rates ----	
Line No.	Particulars	Terajoules	Average $/GJ	Revenue ($000)	Average $/GJ	Margin ($000s)	$/GJ	Revenue ($000)	Average Number of Customers	Average $/GJ	Revenue ($000)
	c	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1	**BYPASS AND SPECIAL RATES**										
2	Bypass and Special Rates Transportation Service										
3	Schedule 22 - Firm Service	10,403.8	0.122	1,267	0.114	1,186	-	-	9	0.122	1,267
4	- Interruptible Service	-	-	-	-	-	-	-	1	-	-
5	Byron Creek (aka Fording Coal Mountain)	216.4	0.213	46	0.125	27	-	-	1	0.213	46
6	Burrard Thermal - Firm	1,730.4	5.759	9,965	5.739	9,930	-	-	1		9,965
7	TGVI - Firm	32,408.7	-	-	-	-	-	-	1	-	-
8	Schedule 23 - Large Commercial	-		-		-		-	-	-	-
9	Schedule 25 - Firm Service	921.8	0.839	773	0.815	751	-	-	7	0.839	773
10	Schedule 27 - Interruptible Service	-		-		-		-	-	-	-
11	Total Bypass and Spec. Rates T-Svc	45,681.1		12,051		11,894		-	20		12,051
12											
13	Total Non-Captive Sales and										
14	Transportation Service	45,681.1		12,051		11,894		-	20		12,051
15											
16	TOTAL CAPTIVE AND NON-CAPTIVE SALES AND										
17	TRANSPORTATION SERVICE	199,684.9		$1,661,161		$469,448		$36,336	834,916		$1,697,497

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OTHER OPERATING REVENUE
FOR THE YEAR ENDING DECEMBER 31, 2009
($000s)

Line No.	Particulars	2008 APPROVED	2009	Change	Reference
	(1)	(2)	(3)	(4)	(5)
1	**Other Utility Revenue**				
2					
3	Late Payment Charge	$5,372	$5,446	$74	
4					
5	Connection Charge	3,770	3,479	(291)	
6					
7	NSF Returned Cheque Charges	82	80	(2)	
8					
9	Other Recoveries	59	68	9	
10					
11	Total Other Utility Revenue	9,283	9,073	(210)	
12					
13	**Miscellaneous Revenue**				
15	TGVI Wheeling Charge	3,366	3,391	25	
16					
17	SCP Third Party Revenue	11,052	11,135	83	
18					
19					
20	Total Miscellaneous	14,418	14,526	108	
21					
22	**Total Other Operating Revenue**	$23,701	$23,599	($102)	- Tab A-1, Page 7

2009 OPERATING AND MAINTENANCE EXPENSE

In accordance with the 2008-2009 Extension of the PBR settlement, the 2009 operating and maintenance costs are determined on a formula-based approach that starts from a base of the 2003 Decision O&M, escalated by growth in customers and inflation less an adjustment factor of 66% of CPI (BC). The forecast of 2009 inflation based on CPI (BC) is 1.9% as discussed under Section A, Tab 2.

For the purpose of 2009 rates setting, 2008 formula-based O&M expense has been adjusted based on updated 2008 customer accounts. Per Commission Order No. G-51-03, a true-up does not occur on CPI. Further, a customer count-related true-up for 2008 overhead capitalization does not occur. The detail calculation of adjusted 2008 O&M base is shown on Page 2 of this Tab.

In 2008 a rate base deferral account was established to record the difference between the O&M that TGS would have been allowed in its cost of service had it not amalgamated with TGI and the allowed O&M expenses under the PBR for amalgamated TGI. Amounts of $117,300 and $119,000 after tax have been deferred in 2008 and 2009 as shown in Tab 3, Page 14.3 and 14.1.

For 2009, the annual operating and maintenance expenses are based on the following formula:

Gross O&M = 2008 Adjusted O&M X [(1 + customer growth) X (1 + CPI – adjustment factor)] + Pension & Insurance Variance

Gross 2009 O&M	$ 204.010 million
Capitalized Overhead	(28.115) million
Fort Nelson O&M and Vehicle Lease	(2.744) million
Net 2009 O&M	$ 173.151 million

Details in support of the above calculation can be found on Page 2 of this Tab.

As per Commission Order No. G-51-03, variances between PBR formula based pension and insurance costs and forecast cost of service based have also been included as 2009 O&M expenses. Based on the calculation shown on Page 3 of this tab, an amount of $3,431,000 is included as a reduction to 2009 O&M expenses. Forecast 2008 cost of service variances are trued up and captured in deferral accounts under Section A, Tab 3, Page 14.3.

Consistent with the 2003 Decision and the terms of the Settlement, the overheads capitalized rate has been kept at 16% for the 2009 year.

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FORMULA CALCULATION OF
OPERATING AND MAINTENANCE EXPENSE
FOR THE YEARS ENDING DECEMBER 31
($000) - Except where noted

Line No.	Description		2003 Decision Adjusted for TPIP	Approved 2004	Adjusted Base 2004	Approved 2005	Adjusted Base 2005	Approved 2006	Adjusted Base 2006	Approved 2007*	Adjusted Base 2007	Approved 2008	Adjusted Base 2008	Change	Forecast 2009
	(1)		(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
1	Average Number of Customers - Forecast		770,368	777,779		790,385		804,316		820,347		829,970		8,959	834,916
2	Percentage Growth in Average Customers													1.08%	
3															
4	Average Number of Customers - True up (Actual/Projection)				779,498		791,647		806,760		817,480		825,957		
5	Percentage Growth in Average Customers														
6															
7	Annual Inflation Rate - CPI													1.90%	
8	Adjustment Factor													1.25%	
9															
10	Total Gross O & M Expense before TPIP		$176,915												
11	TPIP		5,505												
12	Total Gross O & M Expense		182,420	185,740	186,089	190,575	190,888	195,394	196,001	200,657	200,183	204,624	203,898	3,543	207,441
13	Pension & Insurance Variance			2,245	2,245	11	11	1,526	1,526	(1,194)	(1,194)	(4,571)	(4,571)	1,139	(3,431)
14	Adjusted Total Gross O&M Expense			187,985	188,334	190,586	190,899	196,920	197,527	199,463	198,989	200,053	199,327		204,010
15															
16	Less: Adjustments for Overhead Capitalized Purpose														
17	Fort Nelson	($581)													
18	Vehicle Lease	(1,833)													
19	DRIA	(1,652)													
20	OPEB	(6,329)													
21	Capital-related Portion - CustomerWorks	(8,978)													
22	Total Items Not Subject to Overheads	($19,373)	(19,373)	(19,726)	(19,763)	(20,239)	(20,273)	(20,752)	(20,816)	(21,311)	(21,260)	(21,732)	(21,655)		(22,031)
23	Less: TPIP Not Subject to Overhead		(5,505)	(5,605)	(5,616)	(5,751)	(5,761)	(5,897)	(5,915)	(6,056)	(6,041)	(6,175)	(6,153)		(6,260)
24	Total O&M Subject to Capitalized Overhead		157,542	162,654	162,955	164,596	164,865	170,271	170,796	172,096	171,688	172,146	171,519	4,199	175,719
25															
26	Capitalized Overhead at 16%		25,207	26,026	26,026	26,335	26,335	27,243	27,243	27,535	27,535	27,543	27,543		28,115
27	Gross O&M Less Capitalized Overhead		157,213	161,960	162,309	164,251	164,564	169,676	170,283	171,928	171,454	172,510	171,784	4,111	175,895
28	TGI Carbon Tax Expense per BCUC G-88-08 (Deferral treatment doe 2008 & 2009)											0	0	0	0
29	Less: Fort Nelson		(581)	(592)	(593)	(607)	(608)	(622)	(624)	(639)	(637)	(651)	(649)	(11)	(660)
30	Vehicle Lease		(1,833)	(1,866)	(1,870)	(1,915)	(1,918)	(1,963)	(1,969)	(2,016)	(2,011)	(2,056)	(2,048)	(36)	(2,084)
31	Total Utility O&M		$154,799	$159,502	$159,846	$161,729	$162,038	$167,091	$167,690	$169,273	$168,806	$169,803	$169,087	$4,064	$173,151

Note:
* TGI and TGS were amalgamated on 1 January 2007.

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FORMULA CALCULATION OF O & M EXPENSE
PENSION AND INSURANCE VARIANCE

($000) - Except where noted

Line No.	Particulars	Adjusted for 2003	Approved 2004	Adjusted Base 2004	Approved 2005	Adjusted Base 2005	Approved 2006	Adjusted Base 2006	Approved 2007*	Adjusted Base 2007	Approved 2008	Adjusted Base 2008	Change	Forecast 2009
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
1	**Formula Based**													
2	Pension	$5,543	$5,543	$5,654	$5,790	$5,800	$5,937	$5,955	$6,096	$6,082	$6,217	$6,195	$108	$6,303
3	Insurance	3,661	3,728	3,735	3,825	3,831	3,921	3,934	4,027	4,017	4,107	4,092	71	4,163
4	Total	$9,204	$9,271	$9,389	$9,615	$9,631	$9,858	$9,889	$10,123	$10,099	$10,324	$10,287	$179	$10,466
5														
6	**Cost of Service Based**													
7	Pension		$5,616		$4,626		$6,299		$3,862		$1,103			$2,310
8	Insurance		5,900		5,000		5,085		5,067		4,650			4,725
9	Total		$11,516		$9,626		$11,384		$8,929		$5,753			$7,035
10														
11	**Pension & Insurance Variance**													
12	Pension		$73		($1,164)		$362		($2,234)		($5,114)			($3,993)
13	Insurance		2,172		1,175		1,164		1,040		543			562
14	**Total Pension and Insurance Variance**		$2,245		$11		$1,526		($1,194)		($4,571)			($3,431)

Note:
* TGI and TGS were amalgamated on 1 January 2007.

2009 TAXES AND OTHER EXPENSES
FOR THE YEAR ENDING DECEMBER 31, 2009

1. PROPERTY TAX EXPENSE

Under the PBR, property taxes will be forecast each year for the Annual Review process. The Property Tax deferral account will collect all variances from the forecast amount included in rates.

The projected 2008 property tax is expected to be lower than previous forecast by $1,100. Under the terms of the Settlement, forecast variances are afforded deferral treatment. For 2009, the forecast property tax is $49,363,000. Details in support of this amount can be found on Page 4 of this tab.

Property taxes are levied under legislation against the Company by Provincial, Municipal and other local governments.

<u>1% Tax</u>

The 1% tax in lieu of general municipal taxes ("1% tax") is calculated based on the amount of revenues collected for gas consumed within municipal boundaries multiplied by 1% (1.25% for the City of Vancouver). Payments of the 1% tax to municipalities are lagged relative to increases and decreases in revenues due to provisions in the applicable legislation and agreements. 2009 budget payments are based on actual 2007 revenues, except for Vancouver which will be based on 2008 revenues.

<u>General, School and Other</u>

Property taxes include general, school and other property taxes as well as Oil and Gas Commission fees. Assessed values for land and improvements are estimated using 2008 actual assessments and applying various market adjustments. The 2009 forecast includes:

a) An adjustment of 3% to office improvements and 4% to other improvements except for pipe.

b) An adjustment of 20% to fee-owned land for offices, and 12% for all other fee lands to cover expected increases in land prices.

c) An average increase of 4.5% to transmission pipeline, based on projected increases in labour, material and other costs.

d) An increase of 4.5% in distribution pipelines for increased costs such as Polyethylene Pipe, Steel Pipe, Fuel, and labour.

e) Net additions to distribution pipeline are estimated at $30,639,000.

f) An increase of $1,256,000 in property taxes for a portion of transportation pipeline between Abbotsford and Coquitlam that is no longer deemed to be used solely for local transmission and therefore no longer eligible for the 1% Tax exemption.

It is expected that Mill rates will generally decrease as a result of rising assessment values. Mill rates used in calculating taxes payable are forecast to change as follows:

a) First Nations: 0.0%

b) General Municipal Rate: - 2.0%

c) General Vancouver Rate: -0.5%

d) General Rural Rates: - 1.5%

e) General University Endowment Land Rate: -1.0%

f) School Rates: -3.0%

g) Other Rates: -1.0%

Beyond the changes mentioned above and revenue-driven changes in the 1% tax, no additional property tax increases are included. As indicated in the Application section, Terasen Gas seeks continuation of the deferral account treatment for variances in property taxes from forecast.

2. LARGE CORPORATIONS TAX (LCT)

The LCT was eliminated in 2006, therefore no provision for LCT expense has been made for 2008. The LCT which was included in 2006 rates has been deferred in accordance with the terms of the 2004-2007 PBR, and is being amortized over three years (2007 through 2009).

3. INCOME TAX EXPENSE

Income tax expense is determined based on taxable earnings calculated on the basis of revenues and costs in accordance with the applicable provisions of the *Income Tax Act*, multiplied by the combined provincial and federal income tax rates. For regulatory purposes, income tax expense is calculated following the taxes payable method of accounting for income taxes.

In late 2007, the Federal Government implemented an income tax rate reduction resulting in a federal corporate income tax rate of 19.50% for 2008 and 19.00% for 2009. In February 2008, as part of its Carbon Tax proposals, the Government of BC implemented an income tax rate reduction resulting in a B.C. corporate income tax rate of 11.00% effective July 1, 2008. Effectively this results in a B.C. corporate tax rate of 11.50% for 2008 and 11.00% for 2009.

Therefore, for 2008 and 2009, the corporate income tax rate is set at 31.00% and 30.00% respectively. The projected 2008 income tax expense has been calculated at the approved rate of 31.5%; the difference between the reduced tax rate of 31.00% has been deferred and is embedded in the Carbon Tax Cost of Service deferral account (Section A-3 Rate Base, Page 14, row 31).

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PROPERTY AND SUNDRY TAXES
FOR THE YEAR ENDING DECEMBER 31, 2009
($000s)

Line No.	Particulars	B.C.U.C. Account Number	2008 APPROVED	2009 Total Expenses	2009 Revised Revenue, Total Expenses	Change	Reference
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	Property Taxes	305-010					
2							
3	1% in Lieu of General Municipal Tax		$14,821	$16,121	$16,121	$1,300	
4							
5	General, School and Other		29,814	33,242	33,242	3,428	
6							
7	Total		$44,635	$49,363	$49,363	$4,728	- Tab A-1, Page 7

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INCOME TAXES / REVENUE DEFICIENCY
FOR THE YEAR ENDING DECEMBER 31, 2009
($000s)

Line No.	Particulars	2008 APPROVED	2009 Existing Rates	2009 ----Revised Rates----- Revised Revenue	2009 ----Revised Rates----- Total	Change	Reference
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	CALCULATION OF INCOME TAXES						
2	Earned Return	$187,366	$162,336	$25,437	$187,773	$407	- Tab A-1, Page 7
3	Deduct - Interest on Debt	(111,773)	(111,023)	(7)	(111,030)	743	
4	Add- Non-Tax Ded. Expense (Net)	(2,676)	328	-	328	3,004	- Tab A-Tab 6, Page 6
5							
6	Accounting Income After Tax	72,917	51,641	25,430	77,071	4,154	
7	Add (Deduct) - Timing Differences	(14,707)	(14,197)	-	(14,197)	510	- Tab A-Tab 6, Page 6
8	Add - Large Corporation Tax	-	-	-	-	-	- Tab A-Tab 6, Page 9
9							
10	Taxable Income After Tax	$58,210	$37,444	$25,430	$62,874	$4,664	
11							
12		31.500%	30.000%	30.000%	30.000%	-1.500%	
13	1 - Current Income Tax Rate	68.500%	70.000%	70.000%	70.000%	1.500%	
14							
15	Taxable Income (L10 / L13)	$84,978	$53,491	$36,329	$89,820	$4,842	
16							
17							
18	Income Tax - Current (L12 x L15)	$26,768	$16,047	$10,899	$26,946	$178	
19	- Deferred Income Tax		-	-			
20	- Large Corporation Tax	-	-	-	-	-	- Tab A-Tab 6, Page 9
21							
22	**Total Income Tax**	$26,768	$16,047	$10,899	$26,946	$178	- Tab A-1, Page 7
23							
24	REVENUE DEFICIENCY						
25	Earned Return	$187,366		$25,437	$187,773		- Tab A-1, Page 7
26	Add - Income Taxes	26,768		10,899	26,946		- Tab A-1, Page 7
27	Deduct - Utility Income Before Taxes,						
28	Present Rates	(206,063)		-	(178,383)		- Tab A-1, Page 7
29	Corporate Capital Tax	-		-	-		
30							
31	Deficiency After Corporate Capital Tax	$8,071		$36,336	$36,336		

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NON-TAX DEDUCTIBLE EXPENSES (NET) AND TIMING DIFFERENCE ADJUSTMENTS
FOR THE YEAR ENDING DECEMBER 31, 2009
($000s)

Line No.	Particulars	2008 APPROVED	2009	Change	Reference
	(1)	(2)	(3)	(4)	(5)
1	**ITEMS OF A PERMANENT NATURE INCREASING TAXABLE INCOME**				
2					
3	Amortization of Deferred Charges	($3,076)	($72)	$3,004	- Tab A-3, Page 14.3
4					
5	Non-tax Deductible Expenses	400	400	-	
6					
7	Total Permanent Differences	($2,676)	$328	$3,004	- Tab A-1, Page 8
8					
9	**TIMING DIFFERENCE ADJUSTMENTS**				
10					
11	Depreciation	$87,186	$89,767	$2,581	- Tab A-Tab 6, Page 7
12	Amortization of Debt Issue Expenses	535	440	(95)	
13	Debt Issue Costs	(1,570)	(1,155)	415	
14	Capital Cost Allowance	(84,565)	(85,296)	(731)	- Tab A-Tab 6, Page 8
15	Cumulative Eligible Capital Allowance	(1,148)	(1,054)	94	
16	Long Term Compensation	957	(1,914)	(2,871)	
17	Unfunded Pension	(4,026)	(4,442)	(416)	
18	Overheads Capitalized Expensed for Tax Purposes	(10,294)	(10,543)	(249)	
19	Discounts on Debt Issue and Other	(1,782)	-	1,782	
20					
21	Timing Differences	(14,707)	(14,197)	510	
22					
23	Total Timing Differences	($14,707)	($14,197)	$510	- Tab A-1, Page 8

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DEPRECIATION AND AMORTIZATION EXPENSES
FOR THE YEAR ENDING DECEMBER 31, 2009
($000s)

Line No.	Particulars	2008 APPROVED	2009	Change	Reference
	(1)	(2)	(3)	(4)	(5)
1	**Depreciation Provision**				
2					
3	Total Depreciation Expense	$93,668	$96,660	$2,992	- Tab A-3, Page 16.4
4					
5	Less: Amortization of Contributions in Aid of Construction	(6,482)	(6,893)	(411)	- Tab A-3, Page 8
6		87,186	89,767	$2,581	
7					
8	**Amortization Expense**				
9					
10	Amortization of Deferred Charges	($3,076)	($72)	$3,004	- Tab A-3, Page 14.3
11					
12					
13		(3,076)	(72)	3,004	
14					
15	TOTAL	$84,110	89,695	$5,585	- Tab A-1, Page 7

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CAPITAL COST ALLOWANCE
FOR THE YEAR ENDING DECEMBER 31, 2009
($000s)

Line No.	Class (1)	CCA Rate % (2)	12/31/2008 UCC Balance (3)	Adjustments (4)	2009 Net Additions (5)	2009 CCA (6)	12/31/2009 UCC Balance (7)
1	1	4%	$1,419,304	($89,585)	$0	($53,189)	$1,276,530
2	1.3	4%		676	706	(41)	1,341
3	2	6%	174,645	(1)	-	(10,479)	164,165
4	3	5%	2,975	-	-	(149)	2,826
5	6	10%	228	-	-	(23)	205
6	7	15%	-	104	64	(20)	148
7	8	20%	20,675	(1)	4,706	(4,606)	20,774
8	10	30%	3,963	-	61	(1,198)	2,826
9	12	100%	-	-	-	-	-
10	13	22%	6,605	2	784	(863)	6,528
11	14	37%	4	-	-	(2)	2
12	17	8%	243	-	-	(19)	224
13	38	30%	17	-	-	(5)	12
14	39	25%	-	1	-	-	1
15	45	45%	13,004	(6,481)	-	(2,936)	3,587
16	47	4%		504	527	(31)	1,000
17	49	8%	21,379	450	9,369	(2,121)	29,077
18	50	45%		6,491	8,192	(4,764)	9,919
19	51	4%		82,160	78,162	(4,850)	155,472
20							
21		Total	$1,663,042	($5,680)	$102,571	($85,296)	$1,674,637

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CALCULATION OF LARGE CORPORATION TAX
FOR THE YEAR ENDING DECEMBER 31, 2009
($000s)

Line No.	Particulars (1)	Reference (2)	2008 Approved (3)	2009 Existing Rates (4)	2009 Revised Rates (5)	Change (6)
1	**Large Corporation Tax**					
2						
3	Utility Capital (Line 26)		$2,524,110	$2,559,431	$2,559,690	$35,580
4	Add: Security Deposits		3,474	3,474	3,474	-
5	Long Term Construction Advances		461	469	469	8
6	Deferred Income Tax		604	552	552	(52)
7	Work in Progress Attracting AFUDC		18,811	26,416	26,416	7,605
8	Sub-total		2,547,460	2,590,342	2,590,601	43,141
9						
10	Utility Portion of $50,000,000 or $0 Deduction					
11	(Line 38 x $50,000,000 or $0)		(47,910)	(47,935)	(47,935)	(25)
12						
13	Taxable Capital		$2,499,550	$2,542,407	$2,542,666	$43,116
14						
15	Large Corporation Tax Rate		0.000%	0.000%	0.000%	0.000%
16						
17	Large Corporation Tax		$0	$0	$0	$0
18	Less: Surtax	0.00%	-	-	-	-
19						
20	Large Corporation Tax		$0	$0	$0	$0
21						
22						
23	Net Plant in Service, Ending	- Tab A-1, Page 6	$2,436,650	$2,474,556	$2,474,556	$37,906
24	All Other Rate Base Items - Lines 26 - 33 of	- Tab A-1, Page 6	87,460	84,875	85,134	(2,326)
25						
26	**Utility Capital**		2,524,110	2,559,431	2,559,690	35,580
27						
28	Non-Rate Base Items					
29	Net Book Value of Lower Mainland Premium		97,670	97,670	97,670	-
30	Disallowed Plant Costs		1,990	1,990	1,990	-
31	Plant Held for Future Use		55	55	55	-
32	Fort Nelson Division		4,303	4,303	4,303	-
33	Squamish Gas Co. Ltd.		6,200	6,200	6,200	-
34						
35	**Total Capital**		$2,634,328	$2,669,649	$2,669,908	$35,580
36						
37						
38	Proportion of Utility Capital to Total Capital		95.82%	95.87%	95.87%	0.05%

2009 RETURN ON CAPITAL
FOR THE YEAR ENDING DECEMBER 31, 2009

Under the terms of the 2008-2009 Extension of the 2004 – 2007 PBR Settlement the short term interest rate and new long term issues will be updated each fall for the Annual Review process. The interest deferral account will collect short term rate variances and all variances with respect to long term issues.

Long-Term Debt

Total long-term debt of $1,504.3 million is entirely TGI related.

Medium-term notes Series 9 totaling $188 million matured in June 2008. A $250 million 30-year debt issue with a coupon rate of 5.80% was settled on May 13, 2008 (Series 23).

The following issue will mature in 2009:

- Debentures-Series E; June 7, 2009; $59.9 million.

A $150.0 million 30 year debt issue with a forecast rate of 6.00% is planned for June 1, 2009.

Unfunded Debt

The unfunded debt rate for 2009 is set at 4.25% based on the current outlook for short-term rates in the year.

The total unfunded debt for 2009 is forecast at $148.4 million.

Common Equity

The revenue requirement information included is based on the allowed 2008 return on equity ("ROE") of 8.62%. The common equity component of TGI is 35.01% for 2009. The 2009 rates for TGI will be adjusted from those in these Annual Review materials to take into account the Commission's determination of the allowed ROE for the low risk benchmark utility, which determination is expected some time in late November 2008.

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EMBEDDED COST OF LONG-TERM DEBT
FOR THE YEAR ENDING DECEMBER 31, 2009
($000s)

Line No.	Particulars	Issue Date	Maturity Date	Coupon Rate	Principal Amount of Issue	Issue Expense	Net Proceeds of Issue	Effective Interest Cost	Average Principal Outstanding	Annual Cost
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1	Series A Purchase Money Mortgage	3-Dec-1990	30-Sep-2015	11.800%	$58,943	$855	$58,088	12.054%	$58,943	$7,105
2	Series B Purchase Money Mortgage	30-Nov-1991	30-Nov-2016	10.300%	157,274	2,228	155,046	10.461%	157,274	16,452
3										
4	Medium Term Note - Series 11	21-Sep-1999	21-Sep-2029	6.950%	150,000	2,290	147,710	7.073%	150,000	10,610
5	2004 Long Term Debt Issue - Series 18	29-Apr-2004	1-May-2034	6.500%	150,000	1,915	148,085	6.598%	150,000	9,897
6	2005 Long Term Debt Issue - Series 19	25-Feb-2005	25-Feb-2035	5.900%	150,000	1,663	148,337	5.980%	150,000	8,970
7	2006 Long Term Debt Issue - Series 21	25-Sep-2006	25-Sep-2036	5.550%	120,000	784	119,216	5.589%	120,000	6,707
8	2007 Medium Term Debt Issue - Series 22	2-Oct-2007	2-Oct-2037	6.000%	250,000	2,232	247,768	6.062%	250,000	15,155
9	2008 Medium Term Debt Issue - Series 23	13-May-2008	13-May-2038	5.800%	250,000	810	249,190	5.871%	250,000	14,678
10	2009 Medium Term Debt Issue- Series 24 (incluc	1-Apr-2009	1-Apr-2039	6.000%	150,000	1,500	148,500	6.073%	113,014	6,863
11										
12	LILO Obligations - Kelowna							5.973%	27,741	1,657
13	LILO Obligations - Nelson							7.119%	4,407	314
14	LILO Obligations - Vernon							8.204%	13,195	1,083
15	LILO Obligations - Prince George							7.170%	33,799	2,423
16	LILO Obligations - Creston							6.422%	3,200	206
17										
18									$1,481,573	$102,120
19	Debentures:									
20	Series E	8-Jun-1989	7-Jun-2009	10.750%	59,890	637	59,253	10.927%	$25,761	$2,815
21										
22									$25,761	$2,815
23										
24	Sub-Total								$1,507,334	$104,935
25	Less - Fort Nelson Division Portion of Long Term Debt								(3,035)	(211)
26	Total								$1,504,299	$104,724
27										
28									Average Embedded Cost	6.962%

2008 PROJECTIONS

Terasen Gas is projecting a 2008 return on common equity before earnings sharing of 10.54%, or 1.92% higher than the authorized return of 8.62%. This is due to continued capital productivity improvements, and operating productivity improvements made possible by the integration activities of TGI with TGVI which were facilitated by the performance based rate regulation (PBR) settlement. Under the PBR, which includes an earnings sharing mechanism, Terasen Gas is to share pre-tax earnings variances between authorized level of earnings as determined annually under the settlement and the actual earnings of the utility on a 50:50 basis with its customers. Return on common equity after earnings sharing is 9.58%. Accordingly, the customers' portion of the 2008 incentive earnings surplus is projected to be $12.0 million on a pre-tax basis. Details in support of this calculation can be found on Page 6 of this Tab.

Terasen Gas proposes to distribute $14.4 million to customers, representing the projected 2008 earnings surplus sharing plus a true up of prior year's earnings sharing, in 2009 via a rider.

TERASEN GAS INC.
UTILITY RATE BASE
SCHEDULE II
($000)

Advance Materials Section A
Tab 8
Page 2

Line No.	Description	Approved 2008	Year Ended 12/31/2008 Projection	Normalization	Normal	Difference	Reference
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	Plant in service, Beginning	$3,242,849	$3,140,066	$0	$3,140,066	($102,783)	
2	CPCN's	10,092	8,196	0	8,196	(1,896)	
3							
4	Additions/Transfers	128,069	116,667	0	116,667	(11,402)	
5	Disposals/Retirements	(32,478)	(36,224)	0	(36,224)	(3,746)	
6	Plant in service, Ending	$3,348,532	$3,228,705	$0	$3,228,705	($119,827)	
7							
8	Add - Intangible plant	1,614	1,614	0	1,614	0	
9		$3,350,146	$3,230,319	$0	$3,230,319	($119,827)	
10							
11	Contributions in aid of construction	(148,162)	(161,386)	0	(161,386)	(13,224)	
12							
13	Less - Accumulated depreciation / amortization	(765,334)	(707,538)	0	(707,538)	57,796	
14							
15	Net plant in service, Ending	$2,436,650	$2,361,395	$0	$2,361,395	($75,255)	
16							
17	Net plant in service, Beginning	$2,398,136	$2,328,268	$0	$2,328,268	($69,868)	
18							
19	Net plant in service, Mid-year	$2,417,393	$2,344,831	$0	$2,344,831	($72,562)	
20	Adjustment to 13-month average	0	(1,456)	0	(1,456)	(1,456)	
21	Work in progress, no AFUDC	9,358	5,817	0	5,817	(3,541)	
22	Sub-total	2,426,751	2,349,192	0	2,349,192	(77,559)	
23							
24	Construction advances	(658)	(671)	0	(671)	(13)	
25	Unamortized deferred charges	(27,047)	(32,281)	0	(32,281)	(5,234)	
26	Cash working capital	(28,452)	(29,771)	1	(29,770)	(1,318)	
27	Other working capital	136,843	167,723	0	167,723	30,880	
28	Deferred income tax, mid-year	(604)	(604)	0	(604)	0	
29	LILO Benefit	(1,980)	(1,980)	0	(1,980)	0	
30	**Utility rate base**	$2,504,853	$2,451,608	$1	$2,451,609	($53,244)	

TERASEN GAS INC.
UTILITY INCOME AND EARNED RETURN
($000)

Advance Materials Section A
Tab 8
Page 3

Line No.	Description	Approved 2008	Year Ended 12/31/2008 Projection	Normalization	Normal	Difference	Reference
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	**ENERGY VOLUMES (TJ)**						
2	Sales	115,223	121,854	0	121,854	6,631	
3	Transportation	91,435	95,710	0	95,710	4,275	
4	Total	206,658	217,564	0	217,564	10,906	
5							
6	Average Rate per GJ						
7	Sales	$12.498	$13.345	$0.000	$13.345	$0.847	
8	Transportation	$0.795	$0.756	$0.000	$0.756	($0.039)	
9	Average	$7.320	$7.807	$0.000	$7.807	$0.487	
10							
11	**UTILITY REVENUE**						
12	Sales - Present Rates	$1,432,963	$1,626,092	$0	$1,626,092	$193,129	
13	- Increase / (Decrease)	7,091	0	0	0	(7,091)	
14	Transportation - Present Rates	71,737	72,354	0	72,354	617	
15	- Increase / (Decrease)	980	0	0	0	(980)	
16	**Total Revenue**	1,512,771	1,698,446	0	1,698,446	185,675	
17							
18	Cost of Gas Sold (Including Gas Lost)	1,021,804	1,193,872	0	1,193,872	172,068	
19	**Gross Margin**	490,967	504,574	0	504,574	13,607	
20	RSAM Revenue	0	(13,890)	0	(13,890)	(13,890)	
21	**Adjusted Gross Margin**	490,967	490,684	0	490,684	(283)	
22							
23	Operation & Maintenance	169,802	157,889	0	157,889	(11,913)	
24	Vehicle Leases	1,988	1,988	0	1,988	0	
25	Property Tax	44,635	44,635	0	44,635	0	
26	Depreciation and Amortization	84,110	75,518	0	75,518	(8,592)	
27	Other Operating Revenue	(23,701)	(21,855)	0	(21,855)	1,846	
28		276,834	258,175	0	258,175	(18,659)	
29	Utility Income before Income Taxes	214,133	232,509	0	232,509	18,376	
30	Income Taxes	26,768	31,965	0	31,965	5,197	- Tab A-8, Page 4
31	**EARNED RETURN**	$187,365	$200,544	$0	$200,544	$13,179	
32	**UTILITY RATE BASE**	$2,504,853	$2,451,608	$1	$2,451,609	($53,244)	- Tab A-8, Page 2
33							
34	**RETURN ON RATE BASE**	7.48%	8.18%	0.00%	8.18%	0.70%	

TERASEN GAS INC.
INCOME TAXES
SCHEDULE III
($000)

Advance Materials — Section A, Tab 8, Page 4

Line No.	Description	Approved 2008	Year Ended 12/31/2008 Projection	Normalization	Normal	Difference	Reference
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	CALCULATION OF INCOME TAXES						
2	Earned Return	$187,366	$200,544	$0	$200,544	$13,178	
3	Deduct - Interest on Debt	(111,773)	(110,043)	0	(110,043)	$1,730	
4	Add - Non-Tax Deductible Expense (Net)	(2,676)	(2,676)	0	(2,676)	0	
5							
6	Accounting Income After Tax	$72,917	$87,825	$0	$87,825	$14,909	
7	Deduct: Timing Differences	(14,707)	(18,313)	0	(18,313)	(3,606)	
8	Add: Large Corporation Tax	0	0	0	0	0	
9							
10	Taxable Income After Tax	$58,210	$69,513	$0	$69,513	$11,303	
11							
12	Income Tax Rate (Current Tax)	31.500%	31.500%		31.500%	0.000%	
13	1 - Current Income Tax Rate	68.500%	68.500%	0.000%	68.500%	0.000%	
14							
15	Taxable Income Before Income Tax	$84,978	$101,479	$0	$101,479	$16,501	
16	Add - Amount Required to Provide for						
17	Deferred Income Tax	0	0	0	0	0	
18							
19	Taxable Income	$84,978	$101,479	$0	$101,479	$16,501	
20							
21	Income Tax						
22	Current	$26,768	$31,966	$0	$31,966	$5,198	
23	Deferred Income Tax	0	0	0	0	0	
24	Large Corporation Tax	0	0	0	0	0	
25							
26	Total	$26,768	$31,966	$0	$31,966	$5,198	- Tab A-8, Page 3

TERASEN GAS INC.
RETURN ON CAPITAL
SCHEDULE IV
($000)

Advance Materials Section A
Tab 8
Page 5

Line No.	Description	Approved 2008	Year Ended 12/31/2008 Projection	Normalization	Normal	Difference	Reference
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	Unfunded debt	$254,023	$219,420	$0	$219,419	($34,604)	
2	proportion	10.14%	8.95%	0.00%	8.95%	-1.19%	
3	rate of return	5.00%	5.00%	0.00%	5.00%	0.00%	
4	return component	0.51%	0.45%	0.00%	0.45%	-0.07%	
5							
6	Long term debt	$1,373,881	$1,373,881	$0	$1,373,881	$0	
7	proportion	54.85%	56.04%	0.00%	56.04%	1.19%	
8	rate of return	7.21%	7.21%	0.00%	7.21%	0.00%	
9	return component	3.95%	4.04%	0.00%	4.04%	0.09%	
10							
11	Preference shares	$0	$0	$0	$0	$0	
12	proportion	0.00%	0.00%	0.00%	0.00%	0.00%	
13	rate of return	0.00%	0.00%	0.00%	0.00%	0.00%	
14	return component	0.00%	0.00%	0.00%	0.00%	0.00%	
15							
16	Common equity	$876,949	$858,308	$0	$858,308	($18,641)	
17	proportion	35.01%	35.01%	0.00%	35.01%	0.00%	
18	rate of return	8.62%	10.54%	0.00%	10.54%	1.92%	
19	return component	3.02%	3.69%	0.00%	3.69%	0.67%	
20							
21							
22		$2,504,853	$2,451,609	$0	$2,451,608	($53,245)	
23							
24							
25	Return on rate base	7.48%	8.18%	0.00%	8.18%	0.70%	- Tab A-8, Page 3
26							
27							
28	Utility rate base	$2,504,853	$2,451,608	$1	$2,451,609	($53,244)	- Tab A-8, Page 2

TERASEN GAS INC.
EARNINGS SHARING CALCULATION
($000)

Line No.	Description		Year Ended 12/31/2008 Projection	Reference
	(1)		(2)	(3)
1	Utility rate base		$2,451,608	- Tab A-8, Page 2
2				
3	Common Equity Component	35.01%	858,308	- Tab A-8, Page 5
4				
5				
6	Achieved ROE on Common Equity		10.54%	- Tab A-8, Page 5
7				
8	Authorized ROE on Common Equity		8.62%	- Tab A-8, Page 5
9				
10	ROE Surplus / (Deficit)		1.92%	
11				
12	After Tax Surplus Available for Sharing		$16,480	
13				
14				
15	Customers' 50% Share of Surplus (net-of-tax)		$8,240	
16				
17				
18	**Customers' 50% Share of Surplus (pre-tax)**		**$12,029**	

FIVE YEAR MAJOR CAPITAL PLAN

1. INTRODUCTION

This section constitutes Terasen Gas' Five Year Major Capital Plan for the forecast period 2009 through 2013. In addition to this information, Terasen Gas has also included its capital expenditure forecasts and year end projections for 2008.

Terasen Gas has segmented its Capital Plans as follows:

Regular Capital Plan

- Customer Driven Capital, and
- Non-Customer Driven Capital/Other Regular Capital

Regular Capital excludes Capitalized Overheads, Contributions In Aid of Construction ("CIAC"), and Allowance for Funds Used During Construction ("AFUDC").

Major Capital Plan

- Capital Projects that do not require a Certificate of Public Convenience and Necessity ("CPCN"),
- Approved CPCN Capital Projects, and
- Anticipated CPCN Capital Projects

Major Capital projects are defined as those discrete projects that are in excess of $1 million (excluding AFUDC). These forecast expenditures have been categorized into projects which do not require a CPCN and those which do require a CPCN to proceed. As outlined on page 5 of Appendix A to Order No. G-33-07 approving a two year extension of the 2004-2007 Multi-Year Performance-Based Rate Plan, *"CPCN expenditures are excluded from the capital formula. Except in very unusual circumstances, CPCNs will not be filed for projects below $5 million."* As such, all projects that are expected to have capital costs in excess of $5 million have been included as prospective CPCN's.

1.1 Five Year Regular Capital Plan

The following table identifies the cost forecasts for regular capital expenditures in the current year, 2008 and 2009 to 2013. For the purposes of this Five Year Capital Plan, Regular Capital has categorized capital expenditures as follows:

Capital Additions "Customer Driven" Capital

- Mains
- Services
- Meters for New Customer Additions

Other Regular "Non Customer Driven" Capital

- Meter Replacements
- Transmission Plant
- Distribution Plant
- IT Capital
- Non-IT Capital

Table 1.1 includes a comparison of the 2008 Forecast versus Projection for 2008 as well as capital expenditure forecasts for the period 2009 to 2013.

Table 1.1: 2008 – 2013 Forecast of Regular Capital Expenditure Targets ($'000's)

	2008 Forecast	2008 Projection	2009 Forecast	2010 Forecast	2011 Forecast	2012 Forecast	2013 Forecast
Forecast Year End Customer Additions	11,797	9,136	8,687	8,488	8,388	8,163	7,953
Customer Driven Capital							
Mains	9,527	9,541	7,622	7,670	7,807	7,826	7,853
Services	19,443	18,904	15,554	15,654	15,934	15,971	16,027
Meters (Customer Additions)	3,834	3,840	3,341	3,363	3,423	3,431	3,443
Total Customer Driven Capital	**32,804**	**32,285**	**26,517**	**26,687**	**27,164**	**27,228**	**27,323**
Other Regular Capital							
Replacement Customer Meters	13,392	13,560	11,799	12,266	17,509	19,837	22,200
Transmission Plant	11,652	13,650	11,307	7,812	7,737	7,806	7,797
Distribution Plant	9,174	7,093	8,700	6,800	6,936	7,075	7,216
IT	10,736	10,736	15,998	15,745	11,000	11,000	15,477
Non-IT	12,301	12,694	14,140	10,719	11,122	11,478	11,282
Total Other Regular Capital	**57,255**	**57,733**	**61,944**	**53,342**	**54,304**	**57,196**	**63,972**
Total Regular Capital	**90,059**	**90,018**	**88,461**	**80,029**	**81,468**	**84,424**	**91,296**

Figures exclude AFUDC and Capitalized Overheads.

1.2 Comparison of 2008 Forecast vs. 2008 Projection

When compared to the figures presented in the 2007 Five Year Plan, the Total Regular Capital year end forecast for 2008 remains similar. Net customer additions are projected to be 2,661 lower in 2008 than the previous forecast presented in the 2007 Five Year Plan but Customer Driven Capital is only projected to be approximately $0.5 million lower than the previous forecast. It should be noted that the forecast year end customer additions presented in Table 1.1 above includes both gross customer additions and removals. A higher number of anticipated removals in 2008 have resulted in a lower projection of net customer additions although gross customer additions remain on target. Since Customer Driven Capital is based on gross customer additions, the capital expenditures in this category will not change significantly.

The current 2008 projection for Other Regular Capital is similar in comparison to the figures presented in the 2007 Five Year Capital Plan with projected differences in two categories that offset one another:

1) In comparison to the previous forecast, Transmission Plant is currently projected to be approximately $2.0 million higher. This increase is mainly attributed to projects attracting CIAC including pipeline relocation at the Golden Ears Bridge and road crossing replacement projects.

2) Distribution Plant is forecast to be approximately $2.1 million lower than the previous forecast as the labour action in late 2007 delayed the design and procurement stages of 2008 scheduled system improvement projects. This resulted in the inability to commence the projects as planned.

2. FIVE YEAR MAJOR CAPITAL PLAN

2.1 Major Capital Projects that do not require a CPCN

Table 2.1 identifies the forecast of costs for major capital projects not subject to CPCN applications for the current year and the forecast period 2009 - 2013.

In the table below, Transmission and Distribution projects are differentiated as either capacity shortfall projects required to maintain minimum gas system pressures in the respective gas systems or as system modification projects. IT projects are categorized as either upgrades/enhancements, replacements, or new applications.

Table 2.1: 2008 – 2013 Forecast of Major Capital Projects not requiring a CPCN ($'000's)

Project Description	Project Category	2008 Projection	2009 Forecast	2010 Forecast	2011 Forecast	2012 Forecast	2013 Forecast
Transmission Plant							
SCP Code Compliance Upgrades	Capacity Shortfall	1,600	1,700				
LNG Coldbox Upgrade	System Modifications	2,785					
Scada Upgrade	System Modifications	250	1,161				
Kootenay River Crossing	System Modifications	368	2,950	25			
Columbia River Crossing	System Modifications	2,379	340	25			
Distribution Plant							
SI - 1275m x 406mm STL DP Quebec St.	System Modifications	1,300					
IT							
Learning Management System	Upgrade/Enhancement	614	998				
SAP Upgrade	Upgrade/Enhancement	2,355	2,286				4,800
Asset Data Integration	Upgrade/Enhancement			500	500		
Desktop Refresh	Replacements		1,940	1,330	320	280	2,150
Server Refresh	Replacements		580	1,110	490	540	660
Vista Deployment	Upgrade/Enhancement		1,500	200			1,500
Toughbook and Modem Replacement	Replacements		1,323				
VOIP and Unified Messaging	Upgrade/Enhancement		232	1,380	227		
Non-IT							
Land purchase for North Shore muster	Replacements		2,000				
Total Major Projects		**11,651**	**17,010**	**4,570**	**1,537**	**820**	**9,110**

2.1.1 Transmission Plant - SCP Code Compliance Upgrades

The Southern Crossing Pipeline ("SCP") is a key transmission pipeline supplying natural gas to the Interior and through to the Lower Mainland regions of British Columbia. The pipeline was constructed and put in service in December 2000. Since construction of the pipeline, the population density and class location has increased from the original design value. The resulting difference has resulted in the lowering of the allowable operating pressure. This upgrade to the pipeline will restore the original operating pressure. This project commenced in 2008 and is anticipated to be completed in 2009 with total project costs estimated to be $3.3 million (excluding AFUDC).

2.1.2 Transmission Plant – LNG Coldbox Upgrade

The Liquefied Natural Gas ("LNG") Coldbox is part of the plant component at the Terasen Gas Tilbury LNG Facility. The LNG Coldbox is the plant component that reduces gas temperature to

-162° Celsius, thereby converting natural gas into LNG. The existing plant was built in 1970-1971. The LNG Coldbox consists of a number of very complex shell and tube, spiral-wound heat exchanges. A number of the tubes in one heat exchanger failed in early 2005. Repairs were successful but very challenging. A materials engineering investigation was completed as to cause and likelihood of additional failures in future. This report stated that further tube failures will occur. A tube failure in the Coldbox will result in Terasen Gas not being able to produce LNG. Preliminary work commenced in 2006 with anticipated completion by the end of 2008. The total project cost is anticipated to be approximately $4.1 million (excluding AFUDC).

2.1.3 Transmission Plant - SCADA System Upgrade

The SCADA system operates, controls, and monitors Terasen Gas' transmission and compression facilities in British Columbia. Timely vendor support of the current version (6.0) of the SCADA application may be at risk as knowledge support diminishes with vendor support staff attrition. Preliminary studies have been completed in 2008 and an upgrade to the next supported version is anticipated to be in service in 2009. The total estimated cost of this project is $1.4 million (excluding AFUDC).

2.1.4 Transmission Plant - Kootenay River Crossing (near Shoreacres)

The aerial crossing of the Kootenay River on the Savona – Nelson Mainline between Castlegar and Nelson has been identified as requiring extensive rehabilitation. This structure was constructed in 1957 and has extensive cable and support corrosion. Repair or replacement is required to ensure continued gas service to Nelson. A horizontal directional drill ("HDD") has been identified as the prime alternative to an aerial crossing. In addition to being a lower cost alternative, the HDD would eliminate all future structural maintenance issues as well as inspection costs. The project commenced in 2008 with anticipated completion in 2009. The total project cost is estimated at approximately $3.3 million (excluding AFUDC).

2.1.5 Transmission Plant - Columbia River Crossing (near Brilliant)

Due to extensive cable and pipe corrosion, rehabilitation is required at the Columbia River on the Savona – Nelson Mainline aerial crossing between Castlegar and Nelson near Brilliant. This structure was constructed in 1957 and must be repaired or replaced to avoid any gas service disruptions to Nelson. As an alternative to an aerial crossing, HDD has been selected as the preferred option at this location. The estimated cost of this project is $2.7 million (excluding AFUDC) with completion anticipated in 2009.

2.1.6 Transmission & Distribution Plant - Gateway Project

The Gateway Program was established by the Province of British Columbia in response to the impact of growing regional congestion, and to improve the movement of people, goods and transit throughout Greater Vancouver. The Gateway Program is sponsored by the Ministry of Transportation ("MoT") and includes three components:

- Port Mann / Highway 1 Project – This includes twinning the Port Mann Bridge, upgrading interchanges and improving access and safety on Highway 1 from Vancouver to Langley.

- The South Fraser Perimeter Road Project is a proposed new four-lane, 80 km/h divided highway along the south side of the Fraser River extending from Highway 17 and Deltaport Way in Delta along the south side of the Fraser River to 176th Street and the Golden Ears Bridge connector road in Surrey/Langley.

- The North Fraser Perimeter Road Project is a proposed set of improvements on existing roads to provide an efficient, continuous route from New Westminster to Maple Ridge.

The highway projects and segments are in various stages of planning, design and construction. The planned highway construction and upgrades will impact the Terasen Gas Transmission and Distribution systems along the highway corridors. Since 2006, the MoT and Terasen Gas have been involved in ongoing discussions regarding this project and as a result Terasen Gas has conducted conceptual and preliminary investigations into system modifications that will be required.

Based upon the current plans and available information, Terasen Gas projects that total system modifications will cost approximately $30 million (excluding AFUDC). Terasen Gas and the Province have entered into discussions with regard to an Overarching Agreement, which include terms of a new permit to be granted to the Company for the works and other Terasen Gas pipelines which are affected by Gateway Project. The agreement is anticipated to be finalized and signed by both parties before the end of October 2008 and covers the cost recovery principles for the different Terasen Pipelines/Highway circumstances. The Company is hopeful that this agreement will allow for 100% cost recovery for all the different circumstances. Therefore, no spending for this project have been shown in Table 2.1 above.

2.1.7 Distribution Plant – SI: 960m x 406mm DP STL Quebec St.

This system capacity improvement project was identified as a continuation of other improvements initially scheduled for 2010. The project has been expedited to coordinate the installation in conjunction with the development of Olympic Village and other municipal improvements in the same area. Total project cost is anticipated to be approximately $1.3 million (excluding AFUDC) and completed in 2008.

2.1.8 IT Capital – Learning Management System

One of Terasen Gas's key strategic initiatives is to retain, attract and motivate employees. Providing more emphasis on talent management, reducing low-value manual tasks, providing more information readily to managers and employees alike as well as formalizing an overall competency & training framework are critical to helping Terasen achieve this strategy. With this enterprise wide goal in mind, Terasen Gas is implementing the SAP Enterprise Learning (EL) model and integrating with other SAP modules, such as Human Capital Management (HCM), Business Warehouse (BW), Finance and Control (FI/CO), and Employee Self-Serve (ESS) / Manager Self-Serve (MSS). Additionally, the SAP EL rollout will ensure future sustainment of learning management, competency management, and more widely deployed eLearning content delivery, as well a uniform training management strategy across all learning organizations

At a more functional level, the SAP LS deployment will:

1. Provide a common toolset for managing and delivering training across Terasen Gas;
2. Offer a real-time tool to track and proactively manage competencies across the organization;
3. Include course registration and tracking for all instructor-led and web-based courses;
4. Offer immediate access to transcripts, training histories, cost accounting information, and reporting;
5. Automate several manual business processes and workflow tasks;
6. Provide robust reporting to training administrators and managers, and
7. Form the basis on which to build the future Terasen Gas training strategy.

The SAP EL implementation is expected to take approximately 6-8 months to complete with a scheduled go-live date to coincide with the currently planned SAP ECC 6.0 upgrade targeted for May 2009 at an estimated cost of $1.6 million (excluding AFUDC).

2.1.9 IT Capital – SAP Core Application Upgrade

SAP is the enterprise application that supports business processes including: Operations and Maintenance; Order Fulfilment; Meter Management and Supply Chain. It also supports back-office functions such as: Payroll; Finance and Performance Reporting. Vendor support of the current version of the SAP application (R3 v4.6C) expired in the fourth quarter of 2006. An upgrade to the next supported version is therefore required. Terasen Gas has negotiated an extension to the support agreement for 2007 and will renegotiate a further extension to mid-year 2009 or the completion of the upgrade project - whichever comes first. The start of the upgrade project is expected in late 2008 with an anticipated go-live date in mid 2009. SAP has a defined major product release strategy of one every five years. Companies that follow that strategy avoid incremental support costs. To fall in step with SAP's timing, Terasen Gas is anticipating another major upgrade in 2013 for approximately the same cost as the upgrade currently underway allowing for assumed inflation in consulting costs. The total project costs for the two upgrades are anticipated to be $9.4 million (excluding AFUDC).

2.1.10 IT Capital – Asset Integrity Integration Project

The System Integrity department's mission of providing risk based management services depends heavily on having access to the most current and complete pipeline condition data on which to base its analysis. This pipeline asset and condition data is currently maintained in multiple exclusive databases, digital files, or paper reports, with no current means of automated integration, causing numerous challenges in providing integrity management services. Manual alignment of data from these sources for analysis is difficult and time consuming.

This project will increase integration and continuity within the existing data environment that would allow compliance with the requirements of Z662 Code Annex N (Guidelines for Pipeline Integrity Management Programs) which has recently been adopted by the Oil and Gas Commission of BC ("OGC"), the technical regulator for the Terasen Gas pipeline assets operating at pressures greater than 700kPag, as the standard to which operating companies shall develop their Integrity Management Plans ("IMP"). In addition to helping the Company meet compliance objectives, this project will:

- Create an automated method to integrate and spatially align pipeline asset integrity data;
- Introduce new tools to determine and analyze risks to the pipeline and surroundings, as caused by current and forecasted conditions;
- Introduce new tools to evaluate various options to reduce the risk to levels considered to be not significant;
- Ensure future capability to integrate distribution data is not compromised; and

This estimated cost of this project is $1.0 million (excluding AFUDC) and expected to be completed in 2010.

2.1.11 IT Capital – Desktop Refresh

The Desktop Refresh program is an initiative to replace desktop and laptop computers based on a 4 year refresh cycle within the Terasen Gas environment. Monitors will be replaced on an 8 year refresh cycle. The program allows the evaluation of new hardware and monitor standards and ensures the optimal (i.e. memory requirements for Office 2007), cost-effective hardware equipment that meets all immediate and long-term business requirements. This would also provide opportunities to standardize desktop and laptop software to reduce support costs and decrease the risk of business interruptions due to personal computer hardware failures. The total project costs are anticipated to be $6.0 million (excluding AFUDC) over five years.

2.1.12 IT Capital – Server Refresh

A single server outage can impact hundreds of users of business critical applications or infrastructure services. The Server Refresh program presents an opportunity to standardize, coordinate, and ensure that business operations and services will not be interrupted with unsupported hardware or software. The objective of the Server Refresh program is to replace aging servers, servers running on unsupported operating systems, and unsupported hardware based on a 5 year refresh cycle. This includes migrating aging or unsupported conventional severs to new conventional servers or virtualization servers and optimizing server performance by cascading servers for more efficient use of infrastructure assets. The risk of business interruptions due to server and application outages will decrease as well as associated O&M costs. The total project costs are anticipated to be $3.4 million (excluding AFUDC) over five years.

2.1.13 IT Capital – Vista Deployment

Terasen Gas is currently running the Windows XP operating system that will be on extended support by the end of 2008 and end of life by the end of 2012. Windows Vista is the follow-on version to Windows XP which is currently on mainstream support. An opportunity to deploy Windows Vista with the 1,156 desktop computers and laptops due to be refreshed in 2009 and 2010 will provide significant deployment savings versus in place operating system upgrades in the future. Also, integration of Windows Vista, Office 2007, and new hardware at the same time will reduce on-going support and will be the quickest path to archiving a homogenous environment (i.e. XP & Office 2007 to Vista & Office 2007). Windows Vista Deployment Project will verify software titles and versions (over 900) for compatibility testing. Reduction in the number of software titles and versions will reduce costs and avoid business interruptions as Independent Software Vendors ("ISV") reduce support for a near end of support operating system.

"Windows 7" is the follow-on release to Windows Vista and the earliest delivery date will be late 2009 (barring any Microsoft delays) and earliest deployment for corporations will be in early 2012 (2 years to stabilize). The total project costs are anticipated to be $3.2 million (excluding AFUDC) over five years.

2.1.14 IT Capital – Toughbook and Modem Replacement

Toughbook laptops are used by Terasen Gas Customer Service Technicians and Construction Field crews to run mobile applications and view PDF maps. The Panasonic Toughbook laptops are certified to withstand shocks, vibrations, dust, and extreme temperatures while equipped with touch screens to allow easier user interaction with applications. Modems with newer technologies will provide higher transmission speeds for Mobile applications. The Toughbook and Modem Replacement program intends to replace Toughbook laptops and modems in the Terasen Gas environment to reduce the risk of business interruptions and delays in customer response due to computer hardware failures. The estimated cost for this project is $1.3 million (excluding AFUDC) with completion in 2009.

2.1.15 IT Capital – VOIP and Unified Messaging

Terasen Gas' current PBX based voicemail system will be at the end of its useful life by June 2011 with no hardware or software support. Voice Over Internet Protocol ("VOIP") is a technology that transmits voice calls through IT network and allows easier management of requests for moves, adds, and changes ("MAC"). The VOIP project will replace PBX phone switches with IT network switches and provide new communication software to allow dialling through a computer, replacement of desktop handsets, and companion wireless phones. This project also provides an opportunity to integrate voicemail within the existing e-mail environment and convergence of communication platforms. Convergence of communication tools will provide higher productivity and reduce the risk of business interruptions due to hardware failures without vendor support. VOIP will be the norm for many new workers entering the workforce. Total project costs are anticipated to be approximately $1.8 million (excluding AFUDC) with completion in 2011.

2.1.16 Non-IT Capital – Land purchase for North Shore Muster Station

Land purchase is anticipated in the North Shore area to replace a muster station in a key area. The existing facility is being leased with no opportunity for renewal as recently advised by the lessor. Muster presence within the North Vancouver area is critical to ensure that service quality indicators are supported and maintained. Terasen Gas' muster build has unique provisions that require significant capital investment on a leased premise. Terasen Gas plans to purchase land within this community to prevent the continual capital cost of rebuilding. The land purchase is anticipated to cost $2.0 million in 2009.

2.2 Major Capital Projects that require a CPCN and Deferral Accounts

Table 2.2 identifies the forecast of costs for major capital projects subject to CPCN applications for 2008 to 2013.

Table 2.2: 2008 – 2013 Forecast of Major Capital Projects subject to CPCN Applications ($'000's)

Project Description	2008 Projection	2009 Forecast	2010 Forecast	2011 Forecast	2012 Forecast	2013 Forecast
Approved CPCN's & Deferral Accounts						
Vancouver LP Replacement	6,781					
Distribution Mobile Solution Project	3,942					
	10,723	**-**	**-**	**-**	**-**	**-**
Anticipated CPCN's & Deferral Accounts						
Fraser River SBSA Rehabilitation	800	14,100	1,000			
Okanagan Reinforcement		1,500	1,500	27,600	41,400	
CIS/AMR		12,150	28,350	64,665	32,265	29,070
Residential Unbundling	3,000	3,250	3,250	3,250		
System Enhancements	874	353				
	4,674	**31,353**	**34,100**	**95,515**	**73,665**	**29,070**
Total CPCN's & Deferral Accounts	**15,397**	**31,353**	**34,100**	**95,515**	**73,665**	**29,070**

2.2.1 Approved CPCN – Vancouver LP System Replacement

The LP system consists of approximately 95km of Low Pressure ("LP") mains in densely populated and established areas of Vancouver serving approximately 7,100 customers including: commercial establishments; residences; schools and hospitals. It is planned to replace the steel/iron LP system with a polyethylene system, operating at Distribution Pressure ("DP") of 420 kPa (60 psig), over a 3 year period commencing in 2006 with completion in late 2008.

In May 2006, Terasen Gas submitted a CPCN Application to complete this work. In its application, Terasen Gas projected that it would cost approximately $23.1 million (excluding AFUDC) to complete the 3 year replacement program. This CPCN application was approved by the Commission on June 26, 2006 by Order No. C-2-06. As this project nears completion, the Company is reviewing total project expenditures and forecasts. Early indications suggest that this project will be completed sooner than anticipated with lower capital expenditures than approved by the Commission. The project costs in 2008 are anticipated to be $6.8 million. An update will be provided in the third quarter progress report as more information becomes available.

2.2.2 Approved CPCN – Distribution Mobile Solution Project

The current scheduling and dispatching solution relies on a number of different computer applications, of which one, MobileUP, has reached the end of its useful life and there is significant risk that it will fail due to aging technology components. This application is used for the Mobile Data Dispatch of customer service activities and the transfer of customer meter and billing information to the Energy Customer Information System. The implementation of the Distribution Mobile Solution provides a new common platform for coordinating scheduling and dispatching all three types of work performed by the Terasen Gas mobile workforce; Customer Service, Construction and Preventive Maintenance. The Commission issued Order C-5-07 approving the CPCN on July 2, 2007. The estimated cost of this project is $6.3 million (excluding AFUDC) and it is expected to be complete by December 31, 2008. The project costs in 2008 are anticipated to be $3.9 million.

2.2.3 Anticipated CPCN – Fraser River South Bank South Arm ("SBSA") Crossing

In 2006, an engineering assessment of the current 20" and 24" underwater Transmission pipeline crossings of the South Arm of the Fraser River serving Vancouver and Richmond was completed. The engineering assessment provided an opinion indicating that both the underwater crossings and the adjacent south bank require extensive rehabilitation to ensure they do not pose a risk in the event of a seismic occurrence. Terasen Gas has received a second opinion on the matter, which confirms that rehabilitation work is necessary. Terasen Gas anticipates that it will file a CPCN application for this project in the fourth quarter of 2008 with anticipated completion in late 2009 or 2010. Total project costs are currently estimated to be $15.9 million (excluding AFUDC).

2.2.4 Anticipated CPCN – Okanagan Reinforcement

A study is required to determine the type of reinforcement needed potentially as early as 2012 to meet the forecast demand for the Okanagan Region and possible FortisBC gas fired generation demand in Kelowna. The construction of a 23.7km loop from Penticton to Naramata and a compressor unit at Kitchener B has been identified as a possible solution. An alternative option being considered is the construction of an Interior LNG peakshaving facility. It is anticipated that preliminary studies will commence in 2009 with CPCN application filing in the fourth quarter of 2009.

2.2.5 Anticipated CPCN – CIS/AMR

Since 2002, Terasen Gas has procured its customer care services including the call centre, meter reading, billing and collection activities through a Business Process Outsourcing (BPO) agreement with CustomerWorks Limited Partnership (CWLP), providing considerable value to customers over the years. However, changes in the BPO marketplace; changes in Terasen Gas' business environment driven by public policy on energy use and the environmental impacts; increased complexity of billing requirements; and evolving customer expectations necessitate that Terasen Gas review its customer care model and arrangement to ensure they provide the services required to meet the needs of customers going forward.

Areas under review include ensuring greater flexibility to respond to changes in the business environment, ensuring the Customer Information System hardware and application provide the functionality required, and having more process ownership and accountability for key business processes and technologies. At the same time, Terasen Gas is assessing the value proposition associated with implementing Advanced Metering technology (i.e. drive by meter reads, fixed network meter reads) in order to provide customers with information to manage their energy consumption and to meet future meter reading requirements of Terasen Gas. The $166.5 million represented in Table 2.2 reflects TGI's 90% portion of the estimated total project costs. It is anticipated that a CPCN application for this initiative will be filed in the first or second quarter of 2009.

2.2.6 Deferral – Residential Unbundling Ongoing Program

Policy Action #19 of the 2002 BC Energy Policy states that "Natural gas marketers will be allowed to sell directly to small volume customers". Terasen Gas started to meet this policy objective by providing commodity choice to small volume customers in 2004. This initially included small and large commercial customers when the Commercial Commodity Unbundling program was launched in November 2004. In November 2007, this was extended to include residential customers with the launch of the Customer Choice program.

On August 14, 2006, the Commission issued Order No. C-6-06 approving $12.5 million for the implementation phase for residential unbundling in 2006 and 2007 and $3.6 million towards the ongoing program costs after 2007. This implementation was largely completed by the end of 2007 except for the final requirements to support changes to the financial reporting process. Most of these final changes were completed in September 2008. The total cost to implement residential unbundling was $12.4 million, an amount that is slightly less than the amount approved for this implementation. These implementation costs were captured in a deferral account and are being recovered from eligible customers consistent with the rate rider cost recovery mechanism approved in Commission Order C-6-06.

On July 18, 2008 the Company filed a final report on the implementation of the residential unbundling program and included an application for customer education funding for 2009-2011 and for funding to implement a number of enhancements that were identified as necessary the Commission, gas marketers, and Terasen Gas. Specifically, Terasen Gas seeks approval for the following items and an increase of the existing Residential and Commercial Unbundling Deferral Account spending authorization:

1. The 2009-2011Customer Education Plan $3.25 million annually;
2. Terasen Gas recommended enhancements $819,200;
3. Commission requested enhancements $55,100; and
4. Gas marketer requested enhancements $352,500.

Of these amounts the $3.25 million per year required for customer education would be considered an operating and maintenance cost to be charged to the deferral account with a one-year amortization, while the $1.23 million required to fund the implementation of the recommended enhancements would be considered capital to be charged to the deferral account and recovered from customers over a three year amortization period. Of this amount, the Commission provided approval to implement a number of critical enhancements for a total cost of $874,300 in Order No. G-140-08 dated September 25, 2008. These enhancements are planned to be implemented in October and November 2008. The remaining amount of $352,500 will be incurred as the final group of enhancements are completed in 2009.

The deferral account treatment, including amortization, of the customer education funding and the capital funding is consistent with the deferral account treatment approval provided for the Customer Choice implementation in August 2006, as set out in Order No. C-6-06. Additionally the Company proposes to recover these costs from customers by way of a rate rider consistent with cost recovery rate rider approved by the Commission under Order No. C-6-06.

SERVICE QUALITY ASSURANCE MECHANISM

1. INTRODUCTION

In 2007 the Commission approved the 2008-2009 Extension of the 2004 – 2007 PBR Settlement that Terasen Gas negotiated with its stakeholders. The agreement includes a commitment to maintaining specified levels of service as measured by Service Quality Indicators ("SQIs").

Terasen Gas has ten SQIs that are measured and compared against benchmarks on an annual basis. Additionally, there are two directional indicators that do not have benchmarks but are designed to give an understanding of trends that may develop in these particular areas relating to customer service.

2. COMPONENTS OF THE SERVICE QUALITY ASSURANCE MECHANISM

The Service Quality Assurance Mechanism includes four components:

1. A set of ten SQIs;
2. Benchmarks for each indicator, where applicable;
3. Two directional indicators; and
4. A process for reviewing Terasen Gas performance.

2.1 Service Quality Indicators and Benchmarks

2.1.1 Choice of Service Quality Indicators

SQIs are generally based on the following criteria:

- Value to customer: The indicator must represent a service or service attribute that the customer thinks is important.
- Controllable by the utility: Only those indicators over which the utility has control should be included. SQIs should not be linked to exogenous events over which management decisions have little or no influence.
- Cost effective: The information collection activities associated with the indicator must be cost effective.
- Regulated service: The indicator must represent a regulated service provided by the utility that is not generally available from competitors.

- Simplicity and transparency: The indicator should be simple to administer and results should be easy to understand and interpret.
- Prior tracking: The indicators should have been previously tracked to ensure they are stable over time and this should be considered in future evaluations.
- Quantification: The indicators must be quantifiable.
- Flexibility: The indicators should allow sufficient flexibility to allow modifications, additions and deletions as required over time.

2.1.2 Choice of Benchmarks

Benchmarks are reference points against which levels of service quality can be compared. Benchmarks typically reflect either industry standards or the utility's performance over a recent prior period.

2.1.3 Service Quality Indicators and Benchmarks

The following are individual explanations for each of the ten SQIs that were established as part of the 2004 – 2007 PBR Settlement, to be used throughout the settlement period including the two year extension period. Please refer to the table in section 2.2 for a summary of the SQIs.

1. Emergency Response Time (Response Time Dispatched to Site for Emergency Calls)

This indicator is the average length of time after notification for a qualified utility representative to arrive on the scene of the emergency (i.e. a pulled main or a situation where gas is blowing) at any location on the Terasen Gas system both during and after working hours, including weekends. The benchmark was set at 21.1 minutes as part of the 2004 – 2007 PBR Settlement.

Year	Response Time Dispatched to Site for Emergency Calls
2008 (Jan – Aug)	20.4 minutes
2007	20.4 minutes
2006	21.5 minutes
2005	21.7 minutes
2004	21.6 minutes
2003	22.0 minutes
Benchmark	≤ 21.1 minutes

The 2008 current year-to-date response time of 20.4 minutes is lower than the benchmark of 21.1 minutes. Terasen Gas has shown improvement in recent response times and expects to meet the targeted response time at year end.

2. Speed of Answer – Emergency (Percent of Responses Within 30 Seconds by a Person - Emergency Calls)

Call answer time is a common service quality indicator for distribution utilities. The benchmark of 95.0% is included as a performance clause in the contract with CustomerWorks.

Year	Percent of Responses Within 30 Seconds by a Person for Emergency Calls
2008 (Jan – Aug)	98.4%
2007	98.4%
2006	98.6%
2005	98.8%
2004	97.9%
2003	96.3%
Benchmark	≥ 95.0%

The current year to date service level has remained quite consistent for the last four years with marked improvement since 2003. Terasen Gas expects to be at or near the current level of 98.4% at the end of 2008.

3. Speed of Answer – Non-Emergency (Percent Responses With in 30 Seconds by a Person – Non-Emergency Calls)

This SQI tracks the percent of responses within 30 seconds by a person for non-emergency calls including general, bill inquiries and service applications. The Benchmark of 75.0% is included as a performance clause in the contract with CustomerWorks.

Year	Percent of Responses Within 30 Seconds by a Person for a Non-Emergency Call
2008 (Jan - Aug)	75.3%
2007	76.9%
2006	78.2%
2005	76.9%
2004	77.5%
2003	76.4%
Benchmark	≥ 75.0%

The 2008 year-to-date percentage for non-emergency speed of answer at 75.3% is better than the benchmark of 75.0% and Terasen Gas expects the year end result to exceed the benchmark target of 75.0%

4. Transmission System Integrity (Transmission System Annual Reportable Incidents)

This indicator is presently tracked manually and this is expected to continue, as it covers several different kinds of incidents that are reported to government.

Year	Transmission System Annual Reportable Incidents
2008 (Jan - Aug)	0
2007	1
2006	1
2005	3
2004	3
2003	3
Benchmark	≤ 2

The 2008 year-to-date transmission system reportable incidents of 0 compares favourably with the benchmark level of 2.

5a. Residential & Commercial Customer Billing Activity (Customer Bills Produced Meeting Activity Criteria)

The contract with CustomerWorks contains three performance measures that are included together as sub-measures and combined to form a single service quality indicator. These sub-measures are generally described as accuracy, timeliness, and completion. The tolerance requirements for the first measure are significantly higher than the second and third, 99.9% v. 95%. As such, in order to align these sub-measures, an index score is used. The objective is to achieve a score of 5.0 or less. The benchmark was set based on the performance measures in the contract with CustomerWorks.

	Billing Sub-Measure	Percent Achieved ("PA")	Adjustment Factors	Result
1	Percentage of bills accurate based upon input data	99.9%	IF [PA≥99.9%, 5000*(1-PA), 100*(1.05-PA)]	5.0
2	Percentage of bills delivered to Canada Post within two days of date that the statement file is created	95%	100 – PA	5.0
3	Percentage of customers billed within two business days of the scheduled billing date	95%	100 – PA	5.0

	Billing Sub-Measure	Percent Achieved (“PA”)	Adjustment Factors	Result
Benchmark	Billing Service Quality Indicator (arithmetic average of sub-measures 1 to 3)			5.0

The Adjustment Factors allow the computation of an index score using a simple average of the three results (5.0 or less is desirable).

Year	Customer Bills Produced Meeting Activity Criteria
2008 (Jan - Aug)	8.60
2007	2.30
2006	0.77
2005	1.97
2004	1.93
2003	2.63
Benchmark	≤ 5.0

Beginning in March 2006, the determination of this score includes the experience of the TGVI and TGW customers, a base volume increase of approximately 10%. The 2008 year-to-date composite score of 8.60 for customer bills meeting activity criteria does not compare favourably to the benchmark of 5.0 and Terasen Gas does not expect to meet the benchmark at year-end. A number of issues have contributed to this deficiency.

In January of this year Terasen Gas’ outsourced print provider declared bankruptcy resulting in delays in billing timeliness beyond the established two day target in both January and February. An interim print provider was identified and customer statements were mailed from Calgary until July of 2008 when a permanent solution was established.

A number of other billing related issues also contributed to the high score experienced year to date. In January 2008, a tax calculation issue was identified and subsequently corrected related to the January 1st GST rate reduction. The proration of GST over year-end 2007, in conjunction with rate changes to other Terasen Gas tariffs, resulted in GST being incorrectly charged on the basic charge component in some circumstances. The dollar magnitude of the error for an individual customer was minor and was corrected on the next statement. The error impacted about 8.5% of all customers billed in January. In August of 2008 an error in data configuration resulted in a number of taxes failing to calculate and bill for five cycle workdays, impacting 28.3% of all bills issued in August. Once the error was discovered it was corrected immediately. The dollar impact of the under billing of taxes was small for those customers impacted. The invoices were reversed and the correction applied to the affected customers' September statement.

5b. Industrial Customer Billing Activity (Percent of Industrial Customer Bills Accurate)

This service quality indicator tracks the accuracy of billing for Industrial customers.

Year	Percent of Industrial Customer Bills Accurate
2008 (Jan - Aug)	94.1%
2007	99.5%
2006	99.9%
2005	99.9%
2004	96.6%
2003	99.8%
Benchmark	≥ 99.5%

The 2008 year-to-date result of 94.1% for industrial billing accuracy is currently tracking lower than the benchmark of 99.5% and Terasen Gas does not expect to meet the benchmark of 99.5% at year end.

The issues contributing to the deficiency are similar to the issues impacting mass market billing accuracy as described above. Billing errors related to the implementation of the GST rate change in January resulted in 34% of all industrial accounts requiring correction. Adjustments to correct the GST errors were applied on February statements. In August of 2008 11% of industrial customers were impacted by the data configuration error. For these customers the errors were reversed and corrected bills sent to customers within three working days of the discovery of the error.

6. Meter Exchange Appointment Activity (Percent of Appointments Met for Meter Exchange)

This indicator tracks the percent of appointments met for meter exchange. The benchmark is set at the 2002 level.

Year	Percent of Appointments Met for Meter Exchange
2008 (Jan - Aug)	94.5%
2007	93.5%
2006	94.1%
2005	94.3%
2004	93.5%
2003	92.6%
Benchmark	≥ 92.2%

The 2008 year-to-date result of 94.5% of meter exchange appointments exceeds the benchmark of 92.2% and has shown consistency in results over the last five years.

7. Industrial Meter Measurement (Industrial Meter Measurement First Report Under 10%)

This service quality indicator tracks the percent of time when the deviation is less than 10% between the preliminary billing estimate that is first reported to an industrial customer, compared to the final amount that is billed to the customer. Industrial Shipper Agents are interested in both their daily balanced groups and their monthly balanced groups. This SQI for Industrial Meter Measurement contains both an accuracy measure (percent deviation) and a frequency measure, applied to both daily and monthly groups on a GJ-weighted basis. Customers who do not provide Terasen Gas with a metering phone line are not included in this measure. The benchmark is set at 90%.

Year	Industrial Meter Measurement First Report Under 10%
2008 (Jan - Aug)	98.8%
2007	98.9%
2006	98.1%
2005	99.5%
2004	98.0%
2003	97.4%
Benchmark	≥ 90.0%

The 2008 year-to-date result of 98.8% for industrial meter measurement exceeds the benchmark of 90.0% and improves upon the 2006 results. The Company expects to exceed the 90.0% benchmark at year-end.

8. Customer Satisfaction (Independent Customer Satisfaction Survey)

Prior to 2005, this service quality indicator tracked customer satisfaction using three surveys conducted by parties outside Terasen Gas. A Residential Survey was conducted quarterly, while a Large Commercial Survey and a Builder/Developer Survey were conducted annually. In order to arrive at the Service Quality Indicator for the Independent Customer Satisfaction Survey, these three surveys were weighted as follows: 80% Residential, 10% Commercial and 10% Builder/Developer.

Starting in 2005, a fourth customer satisfaction study with small commercial customers[1] is included in the calculation of the Service Quality Indicator. Additionally, the formula for deriving the Residential score was updated to reflect the relative importance customers currently place on various service attributes. Beginning in 2007, the Residential study timing was revised to

1 Small commercial customers represent approximately 20% of Terasen Gas' annual revenue and approximately 9% of the total customer base.

three times per year by eliminating one of the non-heating season surveys as results had tracked consistently for the two non-heating season quarters in prior years. The four surveys are weighted as follows: 75% Residential, 10% Large Commercial, 10% Builder/Developer, 5% Small Commercial. On November 28, 2007, Terasen Gas became aware of an analytical discrepancy in the Residential study that impacted year-end results for 2006 that were filed in 2007. During 2006 and 2007, the research firm had neglected to apply a weighting factor for call centre transactions to ensure results represented the customer population as a whole. As a result, the 2006 annual score has changed to 77.7% from 77.9% as formerly reported. The 2007 (Jan – Aug) score reported in the 2007 Annual Review filing also should have been reported as 78.5%.

High gas commodity costs and other events beyond the control of Terasen Gas can influence this SQI. It was agreed as part of the 2004 – 2007 PBR Settlement that no performance threshold for this SQI is needed, but that results would be considered in the context of previous results and that consideration would be given to external factors that can influence satisfaction scores.

Year	Independent Customer Satisfaction Survey[2]
2008 (Jan – Aug)	80.0%
2007	79.3%
2006	77.9%
2005	77.2%
2004	75.3%
2003	73.9%
Benchmark	N/A – results to be compared to prior years

The 2008 year-to-date Independent Customer Satisfaction Survey score of 80.0% shows a consistent improvement over the previous years. Customers have experienced significant

2 The 2004 Service Quality Indicator (SQI) was originally reported as 73.9%. This figure was calculated using the formula in place at that time. In 2005, the 2004 SQI was recalculated using a formula adopted in 2005. This was to ensure that the 2004 SQI could be directly compared to the SQI for 2005 and subsequent years.

volatility in natural gas commodity costs during 2008 and it is anticipated that many customers will find 2008/09 heating season billing to be notably higher than the 2007/08 heating season. It is possible that customer satisfaction will be impacted as a result in upcoming surveys.

9. Customer Satisfaction (Number of Customer Complaints to BCUC)

This indicator tracks the number of customer complaints submitted to the Commission that the Commission then requests, either by Commission Letter or by a Complaint/Inquiry Record, that Terasen Gas provide a written response. Volatile gas costs and other events beyond the control of Terasen Gas can influence the number of complaints to the Commission. It was agreed as part of the 2004 – 2007 PBR Settlement, that there is no performance threshold for this SQI, but that results would be considered in the context of previous results and consideration would be given to external factors and any relevant uncontrollable events that can influence results.

Year	Number of Customer Complaints to BCUC
2008 (Jan - Aug)	68
2007	130
2006	152
2005	121
2004	191
2003	101
Benchmark	N/A – results to be compared to prior years

The 2008 year end result is expected to be lower than 2007 and 2006. The results to date in 2008 are being driven by fewer complaints related to service disconnections and security deposits.

10. Customer Satisfaction (Number of Prior Period Adjustments)

The Customer Satisfaction indicator tracks the number of prior period adjustments for Industrial Transportation Service customers. A prior period adjustment is a billing inaccuracy that is identified after a bill has been issued; if this occurs, the bill is adjusted with any necessary corrections. It was agreed as part of the 2004 – 2007 PBR Settlement, that there is no performance threshold for this SQI but that results would be considered in the context of previous results.

Year	Number of Prior Period Adjustments
2008 (Jan - Aug)	11
2007	23
2006	21
2005	14
2004	18
2003	24
Benchmark	N/A – results to be compared to prior years

There are 11, 2008 year-to-date prior period adjustments. Year end projections indicate 2008 will not differ significantly from prior years.

2.1.4 Directional Indicators

Two of the previous SQIs were not effective as measures but they are included as Directional Indicators.

1. Number of Third Party Damages

Terasen Gas continues its efforts in preventing third party damages to the distribution system. There is no direct link between Third Party Damages and housing starts, so “Number of Third Party Damages” is tracked and reported as a Directional Indicator, with no benchmark.

Year	Number of Third Party Damages
2008 (Jan - Aug)	1010 incidents
2007	1545 incidents
2006	1508 incidents
2005	1457 incidents
2004	1492 incidents
2003	1459 incidents

The 2008 year-to-date number of third party damages at 1,010 incidents is consistent with the previous five year history as is the forecast year end number of incidents at 1,500.

2. Leaks per Kilometre of Distribution Mains

The number of leaks may measure integrity to a certain extent, but in practice, there could be a perceived incentive to lengthen the frequency between surveys in order to reduce the number of leaks detected. Each year approximately one-fifth of the Distribution System is surveyed for leaks. The number of leaks found in any one year will vary in the short term, more because of the condition of the portion of the system being surveyed rather than the quality of the current maintenance program. This statistic will only become valid over a long time horizon; probably 15 to 25 years. The purpose of the leak survey is to find leaks in the system so as to make the appropriate repairs prior to an escalating incident. This measure will continue to be tracked manually and reported as a Directional Indicator, with no benchmark.

Year	Leaks per Km of Distribution Mains
2008 (Jan - Aug)	0.0013 (48 leaks)
2007	0.0024 (87 leaks)
2006	0.0021 (76 leaks)
2005	0.0034 (120 leaks)
2004	0.0045 (150 leaks)
2003	0.0040 (134 leaks)

. The Company projects year-end results to be within the range of previous years.

2.1.5 Conclusion

It is Terasen Gas' submission that service quality continues to be maintained in 2008, and, moreover, has been maintained throughout the settlement period.

2.2 Summary of Service Quality Indicators

	Performance Measure	Service Quality Indicator	Benchmark
1	Emergency Response Time	Response Time Dispatched to Site for Emergency Calls	21.1 minutes
2	Speed of Answer - Emergency	Percent of Responses Within 30 Seconds by a Person for Emergency Calls	95.0%
3	Speed of Answer - Non-Emergency	Percent of Responses Within 30 Seconds by a Person for Non-Emergency Calls	75.0%
4	Transmission System Integrity	Transmission System Annual Reportable Incidents	2
5a	Residential & Commercial Customer Billing Activity	Index Based on the Percent of Customer Bills Produced Meeting Accuracy, Timeliness, and Completion	5.0
5b	Industrial Customer Billing Activity	Percent of Industrial Customer Bills Accurate	99.5%
6	Meter Exchange Appointment Activity	Percent of Appointments Met for Meter Exchange	92.2%
7	Industrial Meter Measurement	Industrial Meter Measurement First Report under 10%	90.0%
8	Customer Satisfaction	Independent Customer Satisfaction Survey	N/A – results to be compared to prior years
9	Customer Satisfaction	Number of Customer Complaints to BCUC	N/A – results to be compared to prior years
10	Customer Satisfaction	Number of Prior Period Adjustments	N/A – results to be compared to prior years

2.3 Summary of Directional Indicators

	Directional Measure	**Directional Indicator**
1	Distribution System Integrity	Number of Third Party Damages
2	Distribution System Integrity	Leaks per Kilometre of Distribution Mains

2008 DEMAND SIDE MANAGEMENT STATUS REPORT

1. INTRODUCTION

BCUC Order No. G-33-07 approved the application of TGI for an extension of the 2004-2007 PBR Settlement Agreement for 2008-2009. Under the terms of the 2004 – 2007 Multi-Year PBR Settlement Agreement, TGI is required to submit an annual Demand Side Management ("DSM") Status Report to the Commission as part of the Annual Review process. This report follows the 2007 DSM Status Report and is prefaced by an overview of BCUC regulatory events that have occurred since the October 2007 filing (and November 2007 revision) of TGI's 2007 Annual Review that have influenced the form and content of the 2008 DSM Status Report.

As part of the 2004 - 2007 Settlement Agreement, TGI was required to undertake a Mid-Term review prior to the end of 2006 of the economic tests used to evaluate its DSM and energy efficiency programs. As part of its 2006 Annual Review, TGI committed to undertake in 2007 a review of these economic tests and to make an application in 2007 to the Commission for review and approval of increased DSM funding with implementation in 2008.

On January 19, 2007, TGI filed for approval of a two-year extension of the 2004 – 2007 Multi-Year Settlement Agreement. On March 22, 2007, the Commission issued Order G-33-07 approving TGI's application for an extension of the 2004 – 2007 Settlement Agreement for 2008 – 2009. On October 5th, 2007, TGI filed its 2007 DSM Status report, followed by a letter to the Commission on December 14, 2007, advising that due to the impact of aspects of the 2007 Energy Plan, a further delay was necessary in the filing of the application for increased DSM funding.

As a result of the introduction of Bill 15: Utilities Commission Amendment Act ("Bill 15"), TGI filed a letter on April 7, 2008, advising that TGI believed that a further delay was necessary pending Royal Assent of Bill 15. The Commission issued a letter on April 9, 2008, accepting the requested delay and noted that the application should be made within 30 days of Royal Assent.

On May 1, 2008, Bill 15 received Royal Assent; subsequently on May 28, 2008, TGI along with Terasen Gas Vancouver Island Inc. ("TGVI") made application to the BCUC for increased DSM funding as required under Order No. G-33-07, Appendix A.

The following 2008 DSM Status Report provides an overview of TGI's activities in 2008 with details pertaining to the progress of individual DSM programs, and details pertaining to other DSM initiatives.

2. GENERAL OVERVIEW OF DSM PROGRAMS AT TERASEN GAS

During 2008, Terasen Gas Inc. has continued to support the provincial policy goals of energy efficiency and conservation through a variety of awareness, education and incentive programs. TGI has operated with a limited DSM budget of $3.124 Million ($1.624 million O & M and $1.500 million incentives) for 2008. This year TGI's residential customers have had the opportunity to participate in two different incentive programs: the EnerChoice Fireplace Pilot Program and the Energy Star Heating Upgrade Program. TGI's commercial customers have had the opportunity to participate in an incentive program through the Efficiency Boiler Program in addition to having the opportunity to receive a free Commercial Energy Assessment.

TGI has been able to promote energy efficiency awareness to its customers through the use of a variety of communications tools which have included radio, print advertising, participation in trade shows, education and community outreach activities. Descriptions of all of the DSM activities in 2008 to date for TGI are outlined below. Note that the level of TGI DSM marketing activities for 2008 has increased from the 2007 level with the addition of some new activities, while several of the 2007 programs have been either discontinued in 2008 (the Residential New Construction Heating Program) or modified (Efficient Boiler Program restricted to new construction applications). The Residential New Construction Heating Program was discontinued because, as of January 1, 2008, all new construction gas heating furnaces fall under government regulations which require a 90% minimum AFUE for furnaces and boilers installed in new construction. The Efficient Boiler Program for retrofit applications was temporarily restricted due to concerns about budget availability but has been reinstated as of September 1, 2008.

3. EDUCATION AND OUTREACH INITIATIVES

Destination Conservation

Terasen Gas continued its sponsorship of the Destination Conservation ("DC") program in 2008. Destination Conservation is a K-12 school program involving students, teachers and school facilities management staff. The program is organized by the Pacific Resource Conservation Society, a BC based not-for-profit group, and offered to school districts. The main purpose of the program is to educate students and teachers about energy conservation and efficiency and provide them with the opportunity to apply their knowledge through energy conservation projects. The program features energy conservation curricula and support materials for participating teachers and technical assistance to school facilities management staff. School teams perform conservation activities which not only give students the opportunity to develop leadership skills, but also provide the district facilities departments with the ability to monitor their department's energy savings on their district's utility bills.

The Terasen Gas sponsorship of Destination Conservation has been a significant factor in the program's availability in many districts across the province including Coquitlam, West Vancouver and Richmond. In the districts that it sponsors, Terasen Gas covers the first year's cost of operations for the programs; this removes the initial cost barrier for cash-strapped public schools. In the FortisBC service territory, FortisBC contributes the second year cost of operations for the program.

As in the 2006-2007 school year, there has been significant interest in the Destination Conservation program during the 2007- 2008 school year. The program was delivered to three districts: 11 schools in SD 23 – Central Okanagan School District (Kelowna & area); 14 schools in SD 39 – Vancouver School Board and 15 schools from the SD 67 – Okanagan Skaha School District (Penticton & area). The total number of schools participating for the 2007-2008 is 40, which is the same number that participated during the 2006-2007 school year. As first year schools, all three districts participated in the energy workshop stream. The Orientation, Energy 1, Energy 2 and Celebration sessions engage the building occupants, staff, students and parent volunteers. There are also two building operator training workshops. These mirror the occupant workshops focusing on lighting and heating, ventilation and air conditioning in year one.

It is anticipated that this interest will only increase with the strong new focus on carbon emissions; the Destination Conservation Program is an excellent vehicle for students to gain hands-on experience in the development off carbon emissions reduction programs in addition to the other energy efficiency and conservation programs.

There are three new districts that are working on joining the DC Program for the 2008 -2009 school year. There are approximately 15 schools registered to join from the Courtenay Lake District (SD #8) in the Nelson and Creston area and 10 new schools each in Fraser-Cascade (SD #78) and Kootenay -Columbia (SD #20).

Provided the BCUC approves the Energy Efficiency and Conservation ("EEC") Application as filed on May 28, 2008, Terasen Gas would consider expanding its support of the Destination Conservation program to TGVI. Sooke School District (SD #62) has already signed up 13 schools and is searching for a sponsor partner in order to begin participating in the DC Program. If Terasen Gas were to move forward with this sponsorship, it would increase the number of DC schools supported by the Terasen Utilities across the province to 88 schools in various stages of the program.

Commercial Energy Utilization Advisory

This program is offered to Terasen Gas commercial and small industrial customers in the Lower Mainland, Squamish and BC Interior who spend more than $20,000 a year on natural gas. The program is an effort to assist these customers to reduce their energy consumption. Once eligibility has been determined, customers are offered a free energy assessment followed by recommendations as to how to best improve their energy efficiency. This program was first implemented in 2001 and has been running consistently since then with minor modifications. Currently, the assessments are outsourced to Environ Corporation. As of August 31, 2008, there have been 36 completed assessments in 2008 and it is expected that the total will reach 73 by year end.

In May 2008, Terasen Gas retained Fruich Consulting to perform an evaluation study of the Commercial Energy Assessment Program for the period of mid 2005 through June 2007. The purpose of this study was to evaluate program effectiveness, verify energy savings and identify areas of improvement. The study determined that approximately 35% of customers who received Terasen Gas energy assessments implemented some or all of the recommended measures and that the total amount of energy savings resulting from audits conducted during the 2005 -2007 audit period was 129,000 GJs. This evaluation has resulted in a lower reported savings for this program and as a consequence, a lower TRC for the program and overall in 2008.

<u>Publications</u>

TGI continues to publish brochures and other material to encourage residential customers to adopt energy savings measures and practices and educate them about the benefits of natural gas. These include the “Hot Tips” booklet, which contains a number of energy saving tips that homeowners can readily perform themselves, as well as bill inserts and customer newsletters. In addition to the “Hot Tips” booklet, TGI has also made available information related to the Company’s DSM programs which include the Energy Start Heating Upgrade and EnerChoice Fireplace Pilot programs.

<u>Mass Media Communication</u>

In 2008, Terasen Gas has continued to promote its energy efficiency initiatives through radio ads, newspaper and magazine ads, bill inserts, trade shows, and the corporate website, terasengas.com. Radio and print advertising is used to build awareness about the Company’s programs as well as establish and reinforce key messages. Other advertising and activities such as tradeshows and the website concentrate on the communication of more in-depth conservation and efficiency messages. The main focus of the company’s 2008 mass media communication has been the promotion of the Energy Star Heating System Upgrade offer and the EnerChoice Fireplace Pilot program.

<u>Community Energy Planning Participation</u>

Terasen Gas continues to be a participant in community-based conservation initiatives (i.e. the Community Energy Association) and collaborates with the provincial and federal governments to review and to implement energy efficiency standards. Terasen Gas is an active supporter of British Columbia’s “Community Action on Energy Efficiency” strategy.

Trade Show Activity

Terasen Gas has continued its trade show activity in 2008 by participating in Buildex Vancouver[1], BC Spring Home and Garden Show, home shows in Kelowna and Kamloops, EPIC - Sustainable Living Expo in Vancouver and the Vancouver Fall Home and Interior Design Show. As in previous years, the company found this to be an effective way to reach customers with energy saving information and answer customers' questions related to natural gas and rebate programs available.

Team Terasen

The Terasen Gas street team was first launched in 2007 as a pilot initiative. Now in its second year, the street team expanded its activity from eight public events in the summer of 2007 to 15 throughout the Lower Mainland from May to August 2008. The Team consists of five post-secondary students. The purpose of this initiative was to reach out to the public by attending local events and promoting energy efficiency and natural gas safety messages. The highlight was the Surrey Canada Day as it provided an excellent opportunity to educate adults and youth about gas safety and energy efficiency. Depending on funding available, TGI plans to expand the locations and events for the Street Team next year in order reach more existing and potential customers.

Trade Relations

Commercial Kitchen Seminar

To address the increasing interest among restaurant operators in energy efficiency, Terasen Gas hosted the inaugural Commercial Kitchen Seminar on May 27, 2008. Terasen Gas invited a well-known energy efficiency expert from the Food Service Technology Center in California who shared some valuable insights in the form of a workshop on where and how to improve energy efficiencies in commercial kitchens. A representative from Natural Resources Canada was also invited who talked about energy efficiency and Energy Star programs in Canada. Speakers from Terasen Gas addressed the guests on the importance of natural gas in BC's energy mix and spoke of the company's commitment to offering customers continuing incentives

[1] The show targets construction and building trades, as well as architects, engineers, developers and builders

for energy efficiency improvements. Over 50 people attended the event and it was well received. Terasen Gas will consider organizing similar events in the future potentially in partnership with other organizations.

<u>Other Activities</u>

Terasen Gas engages in a number of demand side management related activities designed to enhance energy efficiency-related outcomes in British Columbia. Some of them are described below:

- Terasen Gas participated and continues to participate on the Steering Committee for BC Hydro's Electricity Conservation and Efficiency Advisory Committee.
- In 2008, TGI continued its sponsorship of the Douglas College program "Building Environmental System" ("BES"). The BES program was delivered in Vancouver, New Westminster, Victoria and Kelowna and is designed to train energy managers, building operators and facility managers in ongoing maintenance and upgrades of commercial building operations. All nine of the program courses are available by distance learning for those in the province who can not attend the classroom sessions. The BES program will continue to innovate and grow over the next year with new courses in Building Commissioning being offered and a fulltime technologist program in Energy Management starting in the fall of 2009.
- Terasen Gas continued sponsorship of participation in the Building Owners and Managers Association's on-line training course related to energy efficiency.
- The Ministry of Energy, Mines and Petroleum Resources has asked that Terasen Gas lead a working group on DSM for Affordable Housing. The Terasen Utilities' convened the group in late 2007. The group holds monthly meetings and has over 25 members representing various organizations across BC including members from provincial government, utilities and non-profit organizations. The goal of the working group is to find ways and means to deliver Energy Efficiency to the Affordable Housing sector in British Columbia. The focus of the group is the facilitation and coordination of energy efficiency improvements that help BC households with low incomes to manage their energy bills. Currently, TGI does not have a budget allocated for low-income programs that might be developed as a result of this working group; the increased DSM funding as requested in the pending EEC application could serve to provide the financial support required to implement programs developed as a result of this initiative.

4. 2008 INCENTIVE PROGRAMS

Within the constraints of the TGI incentive budget for 2008 ($1.5 million), TGI has been able to provide over 3,300 customers with incentive programs that have resulted in substantial energy savings as detailed below. TGI residential customers have been able to participate in both the Energy Star Heating Upgrade and the EnerChoice Fireplace Pilot programs while commercial customers have had the opportunity to participate in the Efficient Boiler program. The addition of increased DSM funding as requested in the pending EEC Application currently before the BCUC will serve to provide an enhanced suite of DSM programs offered by TGI.

<u>Energy Star Heating System Upgrade</u>

The 2007-2008 version of the Energy Star Heating Upgrade Program was officially launched September 1, 2007 and ran through March 31, 2008. During this time period, the program had just under 2,000 qualifying participants. Similarly to previous years, Terasen Gas partnered with FortisBC and BC Hydro for this program who each provided a $50 incentive to customers who choose to install a furnace with a Variable Speed Motor (“VSM”) in their respective territory.

TGI has just begun the 2008-2009 program which runs from September 1, 2008 through December 31, 2009. The 2008-2009 program is very similar to last year’s program with one exception; the VSM partnership component has been discontinued because FortisBC and BC Hydro have decided to offer an incentive through LiveSmart BC rather than through the Energy Star Heating Upgrade Program. This program will run for 16 months through to the end of 2009, at which time all furnace and boiler installations (including retrofits) will need to meet new government regulations. Participation numbers are estimated at 1,000 participants from September 2008 to December 2008.

In addition, as mentioned in the 2007 Annual Review, Terasen Gas launched an evaluation of the Energy Star Heating System Upgrade Program in Q2 of 2007. The project consisted of two phases, the first phase addressed factors influencing program participation, free riders, program-induced changes to furnace and furnace blower operating behaviours, customer and trade ally satisfaction, and preliminary estimates of program savings and reductions in carbon dioxide emissions. Fieldwork and analysis for this phase was conducted during the second half of 2007 and the report was finalized in Q2 of 2008.

The second phase of the evaluation will undertake a billing analysis of participating and non-participating customers to firm up estimates of program savings. This latter phase will commence after study participants have accumulated sufficient billing history (one full heating season) with their new furnace. The phase two evaluation will also use data gathered from the market research conducted under the first phase of the evaluation plan. The analysis for this work will commence in August, 2008 and the results will be available by Q4 of 2008.

Efficient Boiler Program

Designed to encourage the use of high-efficiency, natural gas hydronic space-heating systems in commercial new construction applications, the Efficient Boiler Program (EBP), which offers customers financial incentives for installing near-condensing or condensing boilers, was modified in late 2006 in response to increases in boiler prices. From January 2008 to August 2008, this program was available to commercial building owners, developers, consulting engineers and/or contractors in the new construction sector and as of September 2008, this program has been reinstated to the retrofit sector as well. Terasen Gas works with qualified participants to help them select an efficient boiler configuration for their project. For new construction, Terasen Gas contributes 50 per cent of a consultant's fees to a maximum of $1,500 toward the cost of analyzing the annual gas usage for space heating using a standard-efficiency boiler system versus a higher efficiency boiler system. Purchase price incentive payments are limited to a maximum of 75 per cent of the purchase price premium over a standard-efficiency boiler. For retrofits, Terasen Gas will pay a contractor up to a maximum of $400 for estimating the normalized peak space heating load, along with $2,000 for venting modifications, as well as a monitoring incentive of $1,500 plus $1/GJ saved for the first year following the boiler's installation.

Given the high degree of variability in both incentive amounts and in projected annual savings, only actual approved applications in 2008 to date are reported here. It is impossible to estimate applications that might be submitted between now and the end of 2008 with any degree of certainty. To date, four applicants have been approved for this program.

EnerChoice Fireplace Pilot Program

In order to encourage the use of efficient fireplaces in the retrofit market, TGI launched the EnerChoice Fireplace Pilot Program in mid-2008 in partnership with the western chapter of the

Hearth, Patio, and Barbecue Association of Canada ("HPBAC"). The program provides a $50 incentive to sales staff at fireplace retailers when an EnerChoice fireplace is sold to a customer between June 1, 2008 and December 31, 2008. TGI worked closely with representatives from the Western Chapter of HPBAC to develop all aspects of the communication and execution strategy of this program. Prior to the launch of the program, TGI hosted five breakfast training presentations throughout the service territory (i.e. Burnaby, Langley, Prince George, Kelowna, and Kamloops), and three online training presentations for fireplace dealers. The goal of these presentations was to review the benefits of EnerChoice fireplaces and to provide an overview of the EnerChoice Fireplace Pilot Program. The training was well received by the participants and over 115 dealers have participated to date. Dealers apply for the incentive from Terasen Gas the same way a customer would: with a completed application form and a copy of the customer invoice showing the EnerChoice model purchased. Applications are verified by the HPBAC, Western Chapter Administrator and then sent to Terasen for cheque processing. To date, 76 applications have been successfully processed. It is projected that the total number of processed applications will reach 161 by end of the year.

In addition to dealer involvement, Terasen Gas has launched a customer education campaign featuring EnerChoice. The campaign includes bill inserts, print advertising, and the participation of 11 fireplace manufacturers who offered an incentive to customers for the purchase of an EnerChoice fireplace during the June to August 2008 time period. These incentives were offered by manufacturers directly to customers. Participating manufacturers included: Blaze King, Enviro, Hearth & Home Technologies, Jotul, Osburn, Regency, Miles Industries, CFM, Monessen, Mendota, and Lennox HP.

<u>Cool Shops</u>

The Cool Shops Pilot Program was a partnership between Terasen Gas and FortisBC. The Program ran in the City of Kelowna from June 2008 to September 2008 and was delivered by the Clean Air Foundation. Small business were offered a free lighting assessment audit, energy efficient light bulbs, an LED exit sign, offers for lighting promotions, and energy conservation advice delivered by energy consultants. Participating restaurants were offered a pre-rinse spray valve, which is a hot water saving measure, in addition to the other electrical measures. The utilities and Clean Air Foundation also worked in partnership with the Uptown Rutland Business

Association and the Downtown Kelowna Association in communicating the Program to small businesses. As of August 31, 2008, 287 energy audits have been completed and 24 pre-rinse spray valves (17 of which were in facilities with natural gas water heating) installed.

5. SUMMARY OF 2008 RESULTS

Total Resource Cost ("TRC") Test and DSM Incentive Status

As in past years, programs are subjected to economic cost-benefit tests (most notably a Total Resource Cost test) prior to launch, and in this report, in response to Commission Order G-160-06, Terasen Gas has also included information on the Ratepayer Impact Measure Test, the Participant Cost Test and the percentage of "free riders". Terasen Gas has launched an evaluation of the Energy Star Heating Upgrade program in 2007 and of the Commercial Energy Utilization Advisory in 2008. Both evaluations provided insight into opportunities for future improvement and assisted in measuring actual natural gas savings against projections, as well as developing free ridership rates. The TRC test is a measure of the net benefits of a utility's DSM programs. Terasen Gas calculates overall TRC impact on a 'portfolio' basis, that is, by examining the impact of the combined group of programs for the year.

For the 2008 portfolio (as identified in the table below), the TRC net benefit is forecasted to be approximately $2,001,000 with a combined portfolio TRC ratio of 1.27. This compares to the 2007 TRC net benefit of $5,494,073 with a combined TRC ratio of 1.85. The change year over year can be attributed to a number of factors:

The Company's contingent of four Marketing and Energy Efficiency staff were focused in 2008 on the EEC Application and the development and implementation of the new pilot EnerChoice Fireplace program. These two initiatives required a substantial time commitment from the Marketing and Energy Efficiency staff, and took time away from maximizing participation in other programs. The Marketing and Energy Efficiency staff has had a high level of direct response to the Company' communications and outreach efforts from the general public, requiring additional customer service efforts and resource demands of the team.

Participation in the Energy Star Heating Upgrade program was slightly down over 2007 because there were fewer applications towards the end of 2007-2008 program cycle compared to the 2005-2007 program cycle. Based on this, TGI made a conservative prediction for the projected number of participants for the remainder of 2008.

The Residential New Construction Heating program ended at the end of 2007 due to a new government regulation which took effect as of January 1, 2008 that requires all gas furnaces in new construction to meet minimum efficiency standards of 90%.

Eligibility for boiler retrofits under the Efficient Boiler Program was eliminated due to budget concerns. As a result, there were only four participants in this program year-to-date. The Company has re-launched this program as of September 1, 2008 and anticipates that 10 additional customers will participate by the end of 2008.

There was a change to the way that the energy savings from the Commercial Energy Utilization Advisory were calculated that resulted in the savings per participant being less than half the savings used in the calculation in 2007. This change was made due to the findings from the 2008 Evaluation Study. For the 2008, the energy savings were calculated based on the assumption that 35% of program participants would implement recommendations made by the energy auditor, while the 2007 energy savings were based on the 100% of implementation rate.

The numbers presented in the table below reflect actual and projected incentive applications year to date for the Energy Star Heating System Upgrade (VSM and non-VSM), the Fireplace Pilot Program, Destination Conservation and the Commercial Energy Assessment Program. The Efficient Boiler Program shows the actual participation numbers year-to-date.

Discount Rate 6.08%

Program Name	Number of Participants	Savings per Participant per Year (GJ)	Measure Life (Years)	NPV Energy Savings over Measure Life (GJ)	GHG Savings over Measure Life (tonnes)	Free Rider Rate (%)	RIM Result	Participant Result	TRC Result	TRC Net Benefit
Energy Star Heating System Upgrade	1,326	13.8	18	112,935	5,725	57	0.46	5.2	1.44	$393,000
Energy Star Heating System Upgrade No	1,663	13.8	18	141,638	7,180	57	0.41	5.2	1.08	$120,000
Fireplace Pilot Program	161	7.75	15	9,210	467	24	0.43	6.1	0.84	-$20,000
Efficient Boiler Program	4	5,492*	25	57,569	2,918	18	0.73	4	2.1	$341,000
Destination Conservation	75	113	3	22,654	1,148	0	0.68	-	0.68	$108,000
Commercial Energy Utilization Advisory	73	20,479**	15	179,009	9,074	10	0.91	2.6	2.09	$1,058,000
			Program Portfolio Result	**523,015**	**26,512**	-	**0.52**	**4.2**	**1.27**	**$2,001,000**

* note that the savings for the Efficient Boiler Program are not presented per participant per year, but are instead an aggregate of savings for all participants for the year

** note that the energy savings for the Commercial Energy Utilization Advisory are estimated using a 35% implementation rate as per the 2008 Evaluation Study results

Greenhouse Gas Reduction

In its demand side management incentive offers, Terasen Gas informs participating customers of its intent to record resulting emission reductions as part of the company's Greenhouse Gas Management Program. The present value of the GHG savings over the projected lives of the various measures resulting from Terasen Gas energy efficiency incentive programs is estimated to be 26,512 tonnes.

DSM Incentive Mechanism

To qualify for the DSM Incentive, a threshold of 75% of the established energy savings target of 177,425 GJs simple annual savings must be achieved, entitling Terasen Gas to an incentive of 3% of the TRC net benefits. As the Company has not achieved the threshold for the 2008 program activity, TGI would not be eligible for a DSM incentive for 2008.

Program Name	**Number of Participants**	**Savings per Participant per Year (GJ)**	**Annual Savings (GJ)**
Energy Star Heating System Upgrade	1,326	13.8	18,299
Energy Star Heating System Upgrade No VSM	1,663	13.8	22,949
Fireplace Pilot Program	161	7.75	1,248
Efficient Boiler Program	4	-	5,492*
Destination Conservation	75	113	8,475
Commercial Energy Utilization Advisory	73	-	20,479**
Total Annual Savings			**76,942**

* note that the savings for the Efficient Boiler Program are not presented per participant per year, but are instead an aggregate of savings for all participants for the year.

** note that the savings for the Commercial Energy Utilization Advisory are estimated using a 35% implementation rate as per the 2008 Evaluation Study Results.

6. SUMMARY OF COSTS

Program and administration costs as well as customer incentive costs are forecasted to remain within the approved levels in 2008. Program and administration costs are treated as O & M and incentives are recovered through a deferral account. Below are the numbers for incentive and non-incentive expenditures as of September, 2008.

2008 DSM Expenditure Amounts

Initiative	Incentive Expenditure ($000)	Non-incentive expenditure ($000)	Total ($000)
Energy Star Heating Upgrade	$332	$60	$391
Energy Star Heating Upgrade No VSM	$416	$448	$863
Fireplace Pilot Program	$25	$72	$97
Commercial Boiler Upgrade	$78	$23	$100
Commercial Energy Assessment	$0	$84	$84
Destination Conservation	$123	$0	$123
Planning and Evaluation	-	$166	$159
Labour	-	$361	$361
Education and Outreach	-	$328	$328
General Administration	-	$36	$36
Grand Total	$973	$1,577	$2,549

It is the Company's intent to make the Efficient Boiler Program available again for retrofit applications. The Company feels that doing so would result in a great deal of the remaining incentive budget of approximately $500,000 being consumed.

7. PROPOSED 2008 – 2010 ACTIVITY

On May 28, 2008, Terasen Gas Inc. submitted the Energy Efficiency and Conservation Programs Application ("EEC") pursuant to BCUC Order No. G-33-07. This Order approved the application of TGI for an extension of the 2004-2007 PBR Settlement Agreement for 2008-2009 which required TGI to submit an annual DSM Status Report to the Commission as part of the Annual Review process. Under Appendix A to this Order (at Pages 18 and 19 under "Review of DSM funding and economic tests"), it states:

> *"This review will also assess the 2006 CPR study and the potential need for increased DSM funding and will take into consideration the anticipated Provincial 2007 Energy Plan. An Application will be made to the Commission for review and approval in 2007, with implementation in 2008."*

In December of 2007, TGI requested an extension for the submission of their Energy Efficiency Plan in order to access the impact of certain aspects of the 2007 Energy Plan. A further extension was requested in April of 2008 as a result of the introduction of Bill 15 Utilities Commission Amendment Act ("Bill 15").

The Commission accepted TGI's proposed delay on April 9, 2008, noting that the submission of the Application should be made within 30 days of Royal Assent. On May 1, 2008, the British Columbia Legislature Bill 15 received Royal Assent.

With the extra time allotted to the Company to submit its Application, the Company has been able to ensure that its May 28, 2008 filing is consistent with the 2007 Energy Plan. One of the major goals of the government's energy policy is to maximize energy conservation efforts. With the EEC Application, the Company has requested expanded funding (from its current level of $3.124 million annually) in the amount of $46.944 million over three years. The Company expects that the regulatory review of the EEC application will not be complete until close to the end of this year, with the new programs commencing shortly thereafter.

For the purposes of this Annual Review filing, the Company has assumed that the level of O&M costs for DSM activities equals that in years past for 2008- $1.624 million for non-incentive costs and $1.5 million for incentive cost. The increase in spending identified in the pending EEC application is reflected in 2009 (Section A, Tab 3, Pages 12 & 14); $19.564 million has been given deferral treatment in accordance with the proposals set out in the EEC application.

REPORT ON THE ESTABLISHMENT OF INCENTIVE MECHANISM FOR REDUCING UNCONTROLLABLE / PARTIALLY CONTROLLABLE EXPENSES FOR THE YEAR ENDING DECEMBER 31, 2008

PROPERY TAX

The 2008-2009 Extension of the 2004 – 2007 Multi-Year PBR Settlement addresses the issue of establishing incentive mechanisms for Terasen Gas for reducing uncontrollable or partially controllable costs.

The Negotiated Settlement, Appendix A to BCUC Order No. G-51-03, indicates that the Company is to have a positive incentive around provincial and municipal government taxes, fees and expenses and that a specific mechanism was agreed to regarding property taxes.

For purposes of determining the incentive, property taxes are divided between the 1% In-Lieu taxes and all other categories of property taxes. The other property taxes include General, School, First Nations, and other taxes, and will herein be referred to as Other Property Taxes.

With respect to the 1% In-Lieu taxes, the Company is entitled to keep 10% of the savings related to achieving a reduced rate for the tax or a changed structure to the tax which lowers the amount payable.

For the Other Property Taxes, a modified version of the formula-based approach applicable to O&M expenses and net gas plant in service will be applied. The 2007 actual amount forms the base to which 2008 customer growth, inflation, and inflation offset factors will be applied to determine the target for 2008. The Company is entitled to 10% of the amount by which its actual taxes are lower than the target. In the formula below the property taxes for Squamish, $62,954, have been added to derive the 2008 Other Property Taxes.

The 2008 threshold for Other Property Taxes is:

($28,802,518+$62,954) x (1+ 1.17%) x (1 + 2.00% - 1.32%) = $29,401,780

The 2008 Other Property Taxes total is projected to be $29,814,000, which is higher than the 2008 threshold of $29,402,000 (Table A). Since the projected 2008 property taxes are higher than the target, the Company is not entitled to an incentive based upon the 2008 results. However, it is important to note that had Terasen Gas not realized the property tax savings due to its mitigation efforts, the 2008 actual property taxes would have been higher by $442,067 (Table B).

Table A

	2007 Actual	Change	2008 Projected
Average Number of Customers	816,421	9,536	825,957
Percentage Growth in Average Customers		1.17%	
Annual Inflation Rate- CPI			2.00%
Adjustment Factor			1.32%
Other Property Tax ($000)			
Formula Based			29,402
Actual/Projected	28,865		29,814
Difference			$ (412)

The table below summarizes the total property tax savings realized to-date following the Terasen Gas property tax mitigation plan:

Table B

Item No	Particulars	Actual in 2007	Actual in 2008	Total
1	Distribution Pipeline Update Factor Error		136,500	136,500
2	Office Appeals	134,300	50,400	184,700
3	Loss of S.353 Exemption on Transmission Pipeline	250,000	250,000	500,000
4	Other Appeals	16,670	5,167	21,837
		$400,970	$442,067	$843,037

If Terasen Gas is successful with current mitigation efforts, future annual property tax savings could increase by $500,000 (see discussion on Mitigation Activities in Progress on Page 4 of this Tab).

Background Details behind Property Tax Cost Mitigation Plans

The 2008 property tax mitigation plans were based on preemptive strategies by Terasen Gas with the goal of minimizing property taxes and cost pressures to customers. The savings summarized below are based on actual performance or are based on current ongoing mitigation activities. Unrealized future savings relate to issues that are before the Property Assessment Appeal Board.

Mitigation Activities during 2008:

1. **Distribution Pipeline Update Factor Error** – Terasen Gas discovered an error in the update (or inflation) rates applied by BC Assessment in 2005. An agreement to correct the error in the 2006 taxation year, ensuring the overall assessment over the two years would be as originally agreed upon. This affected mainly Lower Mainland folios. It is estimated that tax savings, to be implemented in 2008, amount to $87,000.

   Terasen Gas discovered an additional error in the 2008 assessment roll which overstated the update (or inflation factor) for the last 2 reported years. Savings are estimated at $49,500 for 2008.

2. **Office Appeal** – In 2006 it was discovered that the classification of several of the Company offices did not comply with the Property Assessment Appeal Board, this resulted in a further $81,400 savings. Further, refunds totaling $50,400 were received in 2007 relating to the prior year appeals. Savings to date resulting from this appeal are expected to benefit these properties annually for the foreseeable further as a result of lower overall tax rates.

3. **Loss of Exemption on Transmission Pipeline** -- In December 2007, BC Assessment advised through a supplementary notice for the City of Abbotsford that it had removed the exemption under S.353 of the Local Government Act because the pipeline no longer met the conditions of this exemption. After discussions with BC Assessment the supplementary notice was withdrawn under the condition we would undertake a review of the pipelines in 2008. Savings are estimated at approximately $250,000 for each of the years 2007 and 2008.

4. **Miscellaneous Appeals** – The Company achieved a further reduction of $5,167 through various other appeals on valuation and classification.

5. **Other Activities** – Terasen Gas continues to be involved with a variety of groups specializing in Local Government taxation, these include the Canadian Property Tax Association, the Vancouver Board of Trade, and the Canadian Energy Pipeline Association.

<u>Mitigation Activities in progress</u>:

6. **Office Appeal** – In addition to the activities described under point #2, the Company is attempting to seek changes in the wording of the regulations. Terasen Gas continues to discuss this issue with Provincial Government officials to address the inequity in property classification applied to Utility offices. The Company is still hopeful that changes in legislation will be forthcoming, but changes are not likely until after the next Provincial Election. Based on the 2007 Assessment roll it is estimated a change in legislation would result in annual savings of $500,000.

CODE OF CONDUCT AND TRANSFER PRICING POLICY
REVIEWS CONDUCTED BY INTERNAL AND INDEPENDENT EXTERNAL AUDITORS

The Commission stated, at page 21 of Appendix A to Commission Order G-51-03, the following relating to compliance with the 2004-2007 Negotiated Settlement and extended by Order No. G-33-07:

> *"At each Annual Review, Terasen Gas will provide the report required by and filed with the Commission summarizing the results of the annual compliance review of the Code of Conduct and Transfer Pricing Policy of the Commission conducted by Terasen Gas' Internal Audit Services. For each year during the Term of the Settlement, the Commission will provide Stakeholders with the proposed Commission directions to Terasen Gas' Internal Audit Services. Any Stakeholder may request the Commission to add directions to review and report on other areas of concern."*

The Internal Audit Services has prepared a report entitled "Annual Review of Compliance with the Terasen Gas Inc. Code of Conduct and Transfer Pricing Policy" based on the same guidelines and framework as in 2005 and is attached as Appendix A to this Section B-5.

In addition, the Commission continued to state at page 22 of Appendix A:

> *"In addition, before the first Annual Review, Terasen Gas' independent external auditor will review the work performed by Terasen Gas' Internal Audit Services……Subsequent to the first Annual Review, Stakeholders and Terasen Gas may make submissions to the Commission regarding whether or not such a review and report by the independent external auditor of Terasen Gas should be continued for other Annual Reviews."*

For the 2008 Annual Review, Terasen Gas contracted the services of the firm Ernst & Young to provide a review of and report on Terasen Gas' compliance with the Code of Conduct ("CoC") and the Transfer Pricing Policy ("TPP"). Ernst & Young's report is attached as Appendix B.

Based on their respective review procedures, both internal and external auditors concluded that Terasen Gas was in compliance with both of the CoC and TPP except for the following:

- Accounting had not invoiced Terasen Energy Services for Gas Supply Management services as per the contract between Terasen Energy Services and Terasen Gas for the period May, 2006 through December, 2007.

Background

The dollar per GJ methodology for calculating the Gas Supply Management fee that was incorporated in the original contract between Terasen Gas and Terasen Energy Services fell outside of the normal parameters for gas supply services. As a result, there was no definitive process established at the time for capturing the necessary information and billing these amounts. This, combined with a lack of communication between the Gas Supply and Accounting departments, resulted in this particular item being overlooked.

Remedy

To bring Terasen Gas back into compliance with the CoC and TPP, Terasen Gas will be billing Terasen Energy Services for the unbilled amount of $78,324 in October 2008.

In future, Terasen Gas' process will include the signing of a contract (whether a renewal of an existing contract or the creation of an entirely new contract) that will include a review of the contract and the creation of a table summarizing the various components, how the information will be captured and billed, and who is responsible for initiating the transactions. This table will be completed, and signed off by the responsible manager to indicate the items have been reviewed and the billing process has been initiated, and that controls are in place to ensure the amounts are calculated and billed each month.

Appendix A

(a subsidiary of Fortis Inc.)

Andrew Lee
Manager - Internal Audit
Terasen Inc.
3700 - 2nd Avenue
Burnaby, BC Canada V5C 6S4
Phone (604) 293-8648
Fax (604) 293-8679

September 26, 2008

Mr. Randy Jespersen
President & CEO
Terasen Gas Inc.
16705 Fraser Highway
Surrey, B.C. V3S 2X7

Dear Mr. Jespersen:

Subject: Annual Review of Compliance with the Terasen Gas Inc. Code of Conduct and Transfer Pricing Policy

Internal Audit Services (IAS) has completed a review of compliance with the Terasen Gas Inc. (Terasen Gas) Code of Conduct and Transfer Pricing Policy for the Provision of Utility Resources and Services (the Policies). This review is conducted to satisfy Terasen Gas requirements as documented in the Policies.

> "Terasen Gas will monitor employee compliance with the Code of Conduct by conducting an annual compliance review, the results of which will be summarized in a report to be filed with the Commission (B.C. Utilities Commission) within 60 days of the completion of this review." [1]

> "The Transfer Pricing Policy will be reviewed on an annual basis as part of the Code of Conduct compliance review." [2]

Background

The Policies were issued in August 1997 to govern the relationships between Terasen Gas and Non-Regulated Businesses (NRBs) for the provision of Utility resources. NRBs are defined as: "an affiliate of the Utility not regulated by the Commission or a division of the Utility offering unregulated products and/or services[3]". Terasen Gas has processes and practices that are designed to ensure compliance with these Policies.

Commission approval was obtained in July 2003 for the Terasen Gas Settlement Agreement for a 2004 - 2007 Performance-Based Rate Plan and which was extended for 2008 and 2009 as approved by the Commission in the Order No. G-33-07 on March 22, 2007. One of the conditions for compliance with this negotiated settlement is that:

> "At each Annual Review, Terasen Gas will provide the report required by and filed with the Commission summarizing the results of the annual compliance review of the Code of Conduct and Transfer Pricing Policy of the Commission conducted by Terasen Gas' Internal Audit Services.

[1] Item 7 Compliance and Complaints, Code of Conduct
[2] Item 7 Review of Transfer Pricing Policy, Transfer Pricing Policy
[3] page 2 Definitions, both Code of Conduct and Transfer Pricing Policy

> In addition … Terasen Gas' independent external auditor will review the work performed by Terasen Gas' Internal Audit Services and …, consistent with Section 8600 of the CICA Handbook 'Review of Compliance with Agreements and Regulations', will provide a report of Terasen Gas' compliance with the Code of Conduct and Transfer Pricing Policy.[4]"

Review Objective and Approach

Objective:
Consistent with prior years, the objective of this review is to determine whether the existing processes and controls that support compliance with the Policies are adequately designed and operating effectively during the period under review.

Approach:
Our review of business processes and controls that support compliance with the Policies is made in accordance with Canadian generally accepted standards for review engagements as set out in the Canadian Institute of Chartered Accountants Handbook. Our enquiry, analytical procedures and discussion that we deemed necessary included the following:

- Review the Code of Conduct and Transfer Pricing Policy.
- Make enquires to understand the provision of Utility resources to NRBs.
- Make enquiries to understand the processes and controls maintained by Terasen Gas to comply with the Policies.
- Review evidence of such processes and controls and compliance with the Policies.

Conclusion

Based on my review, except for the following item, nothing has come to my attention that causes me to believe that Terasen Gas Inc. is not in compliance with the Code of Conduct and Transfer Pricing Policy for the period September 1, 2007 to August 31, 2008.

> Item 2 of the Code of Conduct regarding Shared Services and Personnel states:
>
> *b) [Terasen Gas] may provide shared services to NRBs, including supervision and management, while ensuring that ratepayers will not generally be negatively impacted by Utility involvement. The costs of providing such services will be as agreed upon by both parties and be in accordance with the Commission approved [Terasen Gas] Transfer Pricing Policy.*
>
> A Specific Committed Service contract between Terasen Energy Services and Terasen Gas has "as-required" pay terms for specific work performed outside of the Committed Service contract. The contract entered into dated May 2006 includes terms for Gas Supply Management services based on volumes delivered to third party contracts negotiated. Accounting was not invoicing according to the terms of the contract. As a result, the total amount of $78,324 (2006 - $25,152; 2007 - $53,172) has not been billed as at the end of August 2008. Management has indicated that the amount will be invoiced in the next billing cycle before the end of October 2008. The 2008 annual revision of the Committed Service contract includes a line item for gas supply management as part of the committed services.

[4] Page 21 & 22, Appendix A, BCUC Order G-51-03

Other Specific Matter

Our testing indicated that four employees were not tracking their time for work performed for NRBs on their respective timesheets. These employees are outlined in the specified committed contract and were being charged and reimbursed by the NRB. The tracking of time is used at year end to determine if any additional charges would be required.

Management Response

The employees have been made aware and adjustments to their time records are being revised to appropriately allocate for services provided to NRBs and to allow an accurate yearend true-up to the specific committed services contract.

We thank management and staff for their assistance and co-operation during our review.

Andrew Lee

Andrew Lee, CA-CIA
Manager – Internal Audit Services

cc: David Bennet, VP, General Counsel and Corporate Secretary, Terasen Gas Inc.
Scott Thomson, VP, Finance & Regulatory Affairs & CFO, Terasen Gas Inc.
Ernst & Young LLP

Appendix B

Ernst & Young
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REVIEW ENGAGEMENT REPORT

To Mr. Scott Thomson
Vice President, Finance & Regulatory Affairs and Chief Financial Officer
Terasen Gas Inc.

We have performed the procedures enumerated below, solely to assist you in evaluating **Terasen Gas Inc.'s** (the "Company") compliance for the period from September 1, 2007 to August 31, 2008 with its Transfer Pricing Policy For Provision of Utility Resources and Services (the "Transfer Pricing Policy") and the Code of Conduct For Provision of Utility Resources and Services (the "Code of Conduct"), both dated August 1997, included in the Company's Internal Audit Services report on compliance with the Transfer Pricing Policy and Code of Conduct dated September 26, 2008.

Our review was made in accordance with Canadian generally accepted standards for review engagements and accordingly consisted primarily of enquiry, analytical procedures and discussion related to information and the Report supplied to us by the Company.

A review does not constitute an audit and consequently we do not express an audit opinion on the Report.

Based on our review, other than those items noted in the Internal Audit Services report, nothing has come to our attention that causes us to believe that the Company is not in compliance with the Code of Conduct and Transfer Pricing Policy for the period from September 1, 2007 to August 31, 2008.

This report is intended solely for the information of the audit committee, management, and the other users of the report including the British Columbia Utilities Commission.

Ernst & Young LLP
Chartered Accountants

Vancouver, Canada,
October 2, 2008.

DISTRIBUTION MOBILE SOLUTION PROJECT

Commission Order No. C-5-07 approved an application from Terasen Gas for a Certificate of Public Convenience and Necessity ("CPCN") to implement a technology solution for managing all Company field work and resources (Distribution Mobile Solution, "DMS"). In the CPCN application, Terasen Gas stated its intention to commence work the first week of July 2007 with Project completion targeted for August 31, 2008.

Commission Order No. C-5-07 Reasons for Decision directed the Internal Audit department at Terasen Gas to perform a formal post-implementation review of the DMS Project and provide a written report to the Commission in conjunction with the filing of the 2008 Annual Review material consistent with Commission Order No. G-33-07.

The targeted completion date of the DMS project has been delayed to December 31, 2008 resulting from setbacks experienced in the technical development of the mobile application; correspondingly Terasen Gas is proposing to file the DMS project post-implementation review on April 1, 2009.

Revised Schedule - DMS Project

May 10, 2007	Submission of CPCN application
July 5, 2007	CPCN conditional approval received
July 31, 2007	Secured dedicated vendor resources
Sept 30, 2007	Detail Design Phase complete
October 1, 2007	Development and Testing phase begins
May 31, 2008	Final Preparation for Go-Live phase begins
October 14, 2008	System goes live
December 31, 2008	Stabilization period and Project complete
April 1, 2008	Post Implementation report submitted to BCUC

Revised Cost Schedule ($000's)- DMS Project

	2007	2008	Total
Internal Labour	$ 250	$ 546	$ 796
Consulting	1,176	2,815	3,991
Hardware	50	121	171
Software	525	40	564
Expenses	49	295	344
Contingency	-	125	125
Total	$ 2,049	$ 3,942	$ 5,991
2006 Spend			285
AFUDC			312
Total			$ 6,589

The total projected capital expenditure cost variance from plan is $0.6 million.

EXOGENOUS FACTORS and FINANCIAL ACCOUNTING MATTERS

Terasen Gas is permitted to adjust the cost of service for “Exogenous Factors” pursuant to the provisions of the 2004-2007 Settlement Agreement and 2008-2009 extension (Appendix A, Page 14).

Terasen Gas has identified four items that merit exogenous treatment under the judicial, legislative or administrative changes, orders and directions section of the Settlement Agreement. Three additional items have been added to the financial accounting matters section.

<u>Exogenous Factors</u>

1. Provincial Sales Tax (“PST”) Reassessment

As part of the 2006 Annual Review Terasen Gas brought forth an exogenous factor that resulted from an audit conducted by the B.C. Ministry of Small Business and Revenue (“MSBR”), Terasen Gas was assessed approximately $36 million under the Social Services Tax Act related to the construction of the Southern Crossing Pipeline Project (“SCP”) for the audit period August 1, 2000 to November 30, 2005.

On March 26, 2007, the Minister allowed TGI’s appeal, in part, and reduced the assessment to $4.5 million plus interest of $2.6 million. TGI has filed an appeal of the remaining $7.1 million reassessment on June 25, 2007 to the BC Supreme Court and the appeal will be proceeding in due course. A hearing on the matter is not expected until 2009.

When the appeal is resolved, TGI will seek a Commission order with respect to the disposition of the deferral account.

2. Carbon Tax Implementation

On May 15, 2008, Terasen filed a Carbon Tax and Provincial Tax Rate Treatment Application in response to the release of Bill 37 by the Province of British Columbia. Bill 37, or the Carbon Tax Act, was enacted on May 29, 2008 and introduces a consumption tax on the purchase or use of fossil fuels within the Province of British Columbia. This tax rate, when converted to an energy basis for natural gas began at $0.4966/GJ on July 1, 2008 and will increase by $0.2483/GJ every July 1 up to and including July 1, 2012.

In addition to the cost of service impact incurred as a result of the consumption of fossil fuels for the operation of TGI's business, the application also identified one time estimated software upgrade, tax consulting and legal fee costs of $0.3 million associated with the implementation of the Carbon Tax Act. As a result, Terasen Gas requested Commission approval for deferral account treatment of the $0.3 million as an exogenous item under the terms of the Settlement.

Through Order G-88-08 the Commission approved the treatment of these costs as exogenous and approved deferral account treatment with an amortization period of one year commencing in 2009. This approval is subject to a review of actual expenditures.

3. Olympic Security Expenses

The objective of this initiative is to ensure reliable, secure and safe natural gas service to Terasen Gas customers during an unprecedented period in British Columbia of increased threat level, risk and world-wide attention in 2010. Large scale events such as the 2010 Winter Olympic and Paralympic Games present unusual and discrete challenges over and above the normal level of security and reliability that Terasen Gas has an obligation to address.

To meet the Vancouver Olympic Committee ("VANOC") and international and government security agencies requirements, Terasen Gas has initiated the planning process to begin preparations for increased security. Through discussions with VANOC, security agencies, other utilities and stakeholders, risks will be identified and assessed. An operational response plan will be developed to augment the on-going security risk reduction strategy that Terasen Gas normally employs to protect its critical infrastructure, in recognition of the heightened risk over the period of time immediately preceding and during the 2010 Winter Olympic and Paralympic Games. The benefits of this initiative include:

- Minimizing the risk to customers of service disruptions or asset repair costs associated with sabotage of critical infrastructure. Such impacts, should they occur, could be severe, long-lasting and costly; and
- Providing safety to the public and Terasen Gas employees who may be working on or near Terasen Gas assets or infrastructure during the 2010 Winter Olympic Games.

The estimated total incremental operating cost for this initiative is approximately $3.8 M for the Terasen Gas Companies. TGI's portion is forecast to be $3.4M (89% of the total) to be distributed as approximately $0.7M in 2009 (for threat assessments, planning, project management, reinforcement, etc.) and approximately $2.7M in 2010 (barriers, guards, etc.).

The basis for allocation of Olympic security costs is consistent with the allocation of Core Market Administration Expense ("CMAE"), which was approved by Commission Order No. G-112-04 dated December 14, 2004.

Table 7.1 below shows the details of allocation of Olympic security costs between TGI, TGVI and TGW for years 2009 and 2010.

Table 7.1 - Summary of Olympic Security Cost Allocation

		Allocated Cost ($)			Allocated Costs (%)		
Company	**Allocation (%)**	**2009**	**2010**	**Sub-total**	**2009**	**2010**	**Sub-total**
TGI	**89.0%**	**$746,879**	**$2,651,641**	**$3,398,520**	**19.6%**	**69.4%**	**89.0%**
TGVI	10.0%	$83,919	$297,937	$381,856	2.2%	7.8%	10.0%
TGW	1.0%	$8,392	$29,794	$38,186	0.2%	0.8%	1.0%
Total	100.0%	$839,190	$2,979,372	$3,818,562	22.0%	78.0%	100.0%

Given that the critical infrastructure planning and security costs required for the 2010 Winter Olympic and Paralympic Games are driven by international, national and provincial security requirements outside of the Company's control, it is the Company's position that the resulting 2009 and 2010 incremental costs constitute an exogenous factor under the terms of the Settlement.

Pursuant to the terms of the Settlement and to Section 60 of the Utilities Commission Act, the Company is requesting deferral account treatment of the Olympic Security Costs with a three year amortization period commencing in 2011. If TGI is successful in its attempts to recover all or a portion of these costs from VANOC or other parties, the Company will credit the amounts to the Olympic Security Cost Allocation Deferral Account accordingly.

4. International Financial Reporting Standards ("IFRS") Implementation

In February 2008, the Accounting Standards Board ("AcSB") confirmed that publicly accountable enterprises will be required to report under IFRS by 2011. In April 2008, the Accounting Standard Board (AcSB) issued an IFRS Omnibus Exposure Draft proposing that publicly accountable enterprises be required to apply IFRS, in full and without modification, on

January 1, 2011. The transition date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by the Company for its year ended December 31, 2010, and restatement of the opening balance sheet as at January 1, 2010.

The estimated total incremental costs for this project are $405,000 in 2008 and $710,000 in 2009, with additional costs to be incurred in 2010 and 2011. TGI's portion of these costs will be approximately $290,950 for 2008 and $566,150 for 2009. The allocation of costs to non-regulated businesses (primarily Terasen Inc.) was based on a standard by standard analysis, incorporating both an applicability weighting and a difficulty weighting. Then the regulated costs were allocated consistent with the allocation of Core Market Administration Expense, which was approved by Commission Order No. G-112-04. The table below shows the total IFRS estimated costs for each of 2008 and 2009, and the allocation between the companies.

IFRS Project Implementation	**2008**	**2009**	
Project resources	106,500	129,500	
Training	20,000	2,000	
Consulting	135,000	115,000	
Other	16,500	16,500	
Costs applicable to all companies	**278,000**	**263,000**	**A**
Consulting - asset & depreciation specialists	15,000	75,000	
Systems changes	112,000	372,000	
Costs applicable to regulated entities only	**127,000**	**447,000**	**B**
Total Costs	**405,000**	**710,000**	
Allocation:			
TGI (64% of A plus 89% of B)	290,950	566,150	
TGVI (10% of A plus 10% of B)	40,500	71,000	
TGW (1% of A plus 1% of B)	4,050	7,100	
Terasen Inc & Non-Reg (25% of A)	69,500	65,750	
	405,000	**710,000**	

The Company requests a rate base deferral account to capture the actual incremental costs of IFRS implementation with a three year amortization, starting in 2011 (the year of adoption of IFRS). Information on the proposed IFRS changes, and their implications for future regulatory filings, will be the subject of a separate submission.

Financial Accounting Matters

1. Effective January 1, 2008, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA").

a) Section 3862, Financial Instruments – Disclosures, and Section 3863, Financial Instruments – Presentation, require disclosures of both qualitative and quantitative information that enables users of financial statements to evaluate the nature and extent of risks from financial instruments to which the Company is exposed.

b) Section 1535, Capital Disclosures, requires the Company to disclose additional information about its capital and the manner in which it is managed. This additional disclosure includes quantitative and qualitative information regarding the Company's objectives, policies and processes for managing capital.

c) Section 3031, Inventories, requires inventories to be measured at the lower of cost or net realizable value, disallows the use of a last-in first-out inventory costing methodology, and requires that, when circumstances which previously caused inventories to be written down below cost no longer exist, the amount of the write-down is to be reversed. This standard is to be applied retrospectively. As at January 1, 2008, supplies and other inventories of $6.6 million ($5.8 million as at January 1, 2007) were reclassified to property, plant and equipment from inventory on the balance sheet as they are held for the development, construction, maintenance and repair of other property, plant and equipment. A reclassification from inventory to PP&E WIP has no effect on the utility's Rate Base since both Inventory and WIP (not attracting AFUDC) are calculated based on a 13 month average balance. For the 2008 Projection included in this Annual Review, these costs are still included in inventory as part of Other Working Capital. For 2009 Forecast, these costs are included in WIP, as approved by the BCUC in G-153-07.

2. Rate-Regulated Operations

In March 2007, the AcSB issued an Exposure Draft on rate regulated operations that proposed: (i) the temporary exemption in Section 1100, Generally Accepted Accounting Principles, of the CICA Handbook providing relief to entities subject to rate regulation from the requirement to apply the Section to the recognition and measurement of assets and liabilities arising from rate regulation be removed; (ii) the explicit guidance for rate-regulated operations provided in

Section 1600, Consolidated Financial Statements, Section 3061, Property, Plant and Equipment, Section 3465, Income Taxes, and Section 3475, Disposal of Long-Lived Assets and Discontinued Operations, be removed; and (iii) Accounting Guideline 19, Disclosures by Entities Subject to Rate Regulation, be retained as is. The AcSB also observed that relying on US Statement of Financial Accounting Standards No. 71, Accounting for the Effects of Certain Types of Regulation ("FAS 71"), as another source of Canadian GAAP in the absence of CICA Handbook guidance addressing the specific circumstances of entities subject to rate regulation, is consistent with Section 1100 when the qualifying criteria of FAS 71 are met.

In August 2007, the AcSB issued a Decision Summary on the Exposure Draft that supported the removal of the temporary exemption in Section 1100, General Accepted Accounting Principles, and the amendment to Section 3465, Income Taxes, to recognize future income tax liabilities and assets as well as an offsetting regulatory asset or liabilities for entities subject to rate regulation. Both changes will apply prospectively for fiscal years beginning on or after January 1, 2009. It was also decided that the current guidance pertaining to property, plant and equipment and disposal of long-lived assets and discontinued operations, consolidated financial statements be maintained and that the existing AcG-19 will not be withdrawn from the Handbook but that the guidance will be updated as a result of the other changes.

The AcSB also decided that the final Background Information and Basis for Conclusions associated with its rate regulation project would not express any views of the AcSB regarding the status of US Statement of Financial Accounting Standards No. 71, Accounting for the Effects of Certain Types of Regulation, as an "other source of GAAP" within the Canadian GAAP hierarchy.

Effective January 1, 2009, the impact on the Company of the amendment to Section 3465, Income Taxes, will be the recognition of future income tax assets and liabilities and related regulatory liabilities and assets for the amount of future income taxes expected to be refunded to or recovered from customers in future gas rates.

As proposed in the Company's submission "Report on Estimate of Rate Impact for Changes in Canadian Generally Accepted Accounting Principles ("GAAP") effective January 1, 2009 – Future Income Tax Liability Report", the recovery of income taxes for regulatory purposes remains on the taxes payable method in this Annual Review submission. Future income tax liabilities reflect the differences between the tax and book values of the regulated assets and liabilities, and are offset by a regulatory future income tax asset, for no income statement or rate impact. Rate base is not impacted as increases or decreases in future income tax liabilities are exactly offset by increases or decreases in regulated future income tax assets, both are included in rate base, and there is no impact on rates or rate base. As requested in that submission, TGI asks for confirmation from the BCUC that TGI and the other Terasen companies can expect to recover taxes in the future as they become due.

3. Goodwill and Intangible Assets

Effective January 1, 2009, the Company will be adopting the new CICA Handbook Section 3064 – Goodwill and Intangible Assets which converges Canadian GAAP for goodwill and intangible assets with IFRS. The new standard provides for more comprehensive guidance on intangible assets, in particular for internally developed intangible assets. The Company is still assessing the financial reporting impact of adopting this standard.